



PENN NATIONAL
G A M I N G , I N C .

April 16, 2013

Mr. Robert K. Schmitz, Chairman
Ohio State Racing Commission
77 South High Street, 18th Floor
Columbus, OH 43215

Re: Penn National Relocations - Request for Reconsideration of Relocation Facility Plan Denial

Dear Chairman Schmitz:

By way of this letter, we respectfully request the Commission's reconsideration of its denial of our facility plans for our two relocation applications. Penn National Gaming, Inc. ("Penn") has appreciated the opportunity to work with you and the Commission on the relocations. While we have worked diligently to prepare and subsequently improve our proposals per your direction, we cannot ignore the fiduciary responsibility we have to our shareholders.

In light of the research provided below, we respectfully believe the time has now come for the Commission to approve our facility plans and applications. Once approved and implemented, there can be no dispute that the two relocations will: (1) greatly improve racing in Ohio; (2) materially increase earning opportunities for Ohio horsemen and breeders; (3) provide increased funding for education; (4) spur economic development in Dayton and in the Mahoning Valley (both areas that genuinely need a shot in the arm); and (5) provide a significant boost to the state's treasury through the relocation and VLT license fees (in the aggregate amount of \$250 million). Conversely, a denial of our two facility plans puts in jeopardy each of the projects and the associated and very real benefits.

As you know, Penn is the largest pari-mutuel operator in the United States with 11 racetracks. We conduct over 1,200 race dates each year that generate over \$1 billion in annual pari-mutuel wagering. Our namesake racetrack opened in 1972 and racing continues to be an important part of the company's past, present and future. In short, we are well versed in racing and we take our rich racing heritage very seriously.

As the largest regional gaming operator in the United States and the largest pari-mutuel operator, our company has developed an extensive, and impressive, track record in developing and constructing new facilities that fit the particular marketplace and the applicable demographics. We have an obligation to our patrons and to the communities in which we operate to build facilities that will appropriately meet market demand and incent economic development. Moreover, as a well-respected public company, we have a legal obligation to be prudent stewards of our shareholders' capital.

Our team has dedicated extensive time, thought and resources on our proposed relocation facilities. We are confident that Penn's proposed seating plans will meet or exceed market demand and that we can also reach agreement with the horsemen on the number of stalls at Mahoning Valley Race Course ("Mahoning"). We share the Commission's goals to improve racing in Ohio and hope that your projections on the need for seating at the proposed facilities (the precise basis of which have not been shared with us) are someday reached. At this time, however, we have no reason to believe (based on our experience or the national comparables set forth below) that the market demand in Dayton Raceway ("Dayton") and Mahoning will exceed the seating capacities we have planned for these projects.

SUGGESTED COMPROMISE

There is a path forward to resolve this apparent and unnecessary impasse. Our company is committed to meeting the Commission's requested seating requirements, but only if certain objectively verifiable criteria supporting the need for more seating are met. This proposed solution is an immediate win-win because it allows: (1) us to right size the facility based on our extensive experience on market demand; (2) the planned (and notably finite) capital spend to be allocated where it will best serve the State and the local communities; and (3) the proper accommodation of potential racing growth. Importantly, this solution is supported by the communities where the relocations would occur. To that end, I respectfully would like to schedule a near term conference with you so we can discuss the appropriate criteria that would trigger this phased in solution and promptly restart construction.

Below, for your team's ease of reference, please find additional information on our position and why we believe the proposed solution (expand seating as necessary) is plainly in the best interest of racing, the public, and the state.

SUPPORT FOR PENN POSITION

I) Penn National Has Worked Constructively With The Commission On The Proposed Relocations

Penn filed the proposed relocation on June 28, 2012, which included a full application and renderings of each proposed facilities. It was not until February 22, 2013 that the relocation rules were effective. We have worked hard to meet every requirement of the rules. Our concern, which I mentioned in the last Commission meeting, was that the rules do not provide clear guidance on the facility requirements. To that end, the only explicit requirements on facilities are:

- A \$150 Million capital investment (reduced by a \$25 million credit)
- A submission of a master facility plan which includes grandstand components.

Penn has submitted to the Commission several master facility plans - all of which meet the established capital spend requirement. We appreciated meeting with you, the Lottery Commission, and the state architect to go over the details of our original submission on November 16, 2012. From our standpoint, that was a productive discussion on the facility plans. Given that no concerns or objections were lodged in the course of a lengthy and detailed presentation at that meeting, we were surprised at the recent reaction of the Commission.

II) Construction Commenced Based On November Meeting With Commission / Construction Has Halted Pending Resolution

In reliance on our various meetings with State agencies, we closed on the purchase of both properties and construction commenced in November 2012 (based on our submission of June 2012). To date we have spent approximately \$19 million on the two facilities.

All site preparation work is nearly complete and our construction team has awarded some of the construction contracts based on bid specifications of the current design. However, all bid awards and pending bids have been suspended and the general contractor has demobilized the site pending a resolution of the final facility plans. We are now ready to commence full scale construction (with much of that work going to local vendors). However, if construction does not commence soon, we could be impacted further from winter weather.

III) Approximately \$50 Million in Lost Revenue for Locals and State If Delay

Based on an Ohio Lottery report¹, the Lottery receives about \$3.8 million a month from VLT income from only one facility. A six-month delay for two facilities could cause the State to lose over \$40 million in VLT income, and if a third facility gets delayed, then lost revenue could be closer to \$60 million. In the context of the current economic climate, a cancellation of the projects would be cataclysmic for both Dayton and the Mahoning Valley.

In addition, the state will lose tax revenue from the pari-mutuel wagering and income taxes from projects. Further, the local communities would lose a half year of property tax revenue, income tax, as well as sales tax and numerous secondary jobs created from the projects. We also estimate that horsemen and breeders will lose close to \$1.3 million per month in incremental revenues that would be derived from VLT operations.

IV) In Addition To The Benefits Of Penn's Plans, Regulatory Costs, Competition and Racing Dates All Support Penn's Proposed Facility Plans

A) Additional Cost Requirements of the Commission, When Combined with the Relocation Fee for Each Facility, Unfairly Burdens Projects

Up to four race tracks may be relocated in Ohio which will serve to enhance revenue for the State and improve racing in Ohio. No other racing company other than Penn has demonstrated a willingness to pay a \$75 Million relocation fee. In fact, one track has zero relocation costs and the fee for the other track's relocation would only be at \$25 million.

In total, Penn plans to invest \$250 million in each facility (inclusive of a relocation fee, capital spend and the license fee). That is an undeniably large sum and in this competitive gaming environment, we need to ensure an adequate return on that sizable investment. In contrast, most other racetracks will only have to invest \$200 million in their projects.

The additional seating requirements requested by the Commission could result in an incremental expense of in excess of \$5 million additional for each project. Because Penn's facility plan budget has already met the capital spend requirement of the Commission, and because the site remediation and preparation costs have been substantially over budget, the margin for error on these projects is razor thin. Consequently, Penn simply cannot increase the budget any further, especially in view of the material relocation costs.

¹ <http://www.ohiolottery.com/assets/pdf/VLT-Revenues/Commission-Report-VLT-FY-13-9>

At this point, the project as envisioned by the Commission is simply not feasible. Our company has limited capital to invest in new projects and we must invest that finite capital prudently in projects that can generate the best return on that investment.

B) Regional Competition Supports Our Proposed Facility Plans

Our Dayton project will be in the same market as the Miami Valley project. Both companies have designed their projects in contemplation of this competitive framework. Both companies are well-established horse racing companies with expertise in racing/gaming operations. It is telling that both companies designed their facilities with similar seating requirements.

For the Austintown project, there is also real and proximate competition from the proposed Lawrence County racetrack/casino project in Pennsylvania, from Thistledown's proposed moved to the Akron area, Mountaineer Park and from Northfield Park. All of these regional forces were factored into the total design and market analysis for this project.

C) Current Ohio Race Dates Support Project Facility Plans

The Mahoning Valley Race Course dates would most likely include daytime winter racing if no changes are made by the Commission to the Ohio thoroughbred racing calendar. Winter racing is a labor and cost intensive endeavor; Penn is well versed in this type of scenario as it operates three thoroughbred racing facilities that conduct racing in the difficult winter months. Winter racing attracts smaller crowds and requires an increased capital spend to accommodate track maintenance and climate controlled seating.

For Dayton Raceway, the race dates are again not finalized, but likely to be in early spring or mid fall so outdoor seating on the proposed bleachers should be authorized without the need for additional indoor seating.

The Commission must also take into account that today's economics of horse racing and track management are greatly influenced by the simulcast marketplace. For many racetracks, including those in Ohio, finding a "niche" on the national simulcast calendar can result in increased handle, revenues and nationwide exposure. This often means racing on weekdays or weeknights, which would lend itself to lower on-track attendances, but higher overall wagering and interest. Beulah Park is a prime example of exploiting this niche in the marketplace with many million dollar handles on days of the week that many racetracks do not race (Monday-Tuesdays).

There also needs to be consistency for Ohio's racetracks with respect to the cost of seating requirements, otherwise some tracks will be given an unfair advantage. For example, according to its presentation to the OSRC on March 20, 2013, River Downs is only proposing a facility with nearly no indoor seats with the view of the track and with an additional 750 outdoor covered seats along with 375 uncovered bleacher seats overlooking the racetrack. This type of grandstand facility can be built much cheaper than a winter racetrack, and thus allows River Downs to invest more on the VLT side or in other investments.

Based on its March 27, 2013 submission to the Commission, the proposed Miami Valley facility states it will have 850 "indoor enclosed seats with a view of the racetrack." However, a review of those plans shows only 280 of those seats are tiered, overlooking the racetrack (a requirement of the Commission for the Mahoning and Dayton projects) and only 80 seats have a direct view of the racetrack on its single level space. This again points to the lack of clarity and direction by the Commission.

These factors should allow:

- Mahoning Valley Race Course to keep its current seating plans because (a) it has more indoor tiered seating overlooking the racetrack than the most recently proposed plans for Miami Valley or River Downs; (b) is disadvantaged on the allocation of race dates; and (c) has crowds that are likely to be smaller due to its smaller market size.
- Dayton Raceway to keep its current seating plans because (a) it has more indoor seating than River Downs; (b) it provides more seating with direct track views than Miami Valley's most recent proposal; (c) it provides 212 additional covered seats with a direct track view; and (d) has race dates more conducive to better and warmer weather conditions with 650 outdoor bleacher seats.

V) Gaming Age Population and Facility Comparison Factors Support Penn's Position that Proposed Facility Plans Will Meet Market Demand

Penn has presented in past Commission meetings information regarding new racing/gaming facility development across the United States, including comparatives to Dayton/Mahoning Valley in terms of market size and seating allocations, type of racing and racing seasons. Let us review the most pertinent examples:

Mahoning Valley's "Gaming Aged Population" a common metric used in gaming (individuals 25+) is approximately 307,000 people within a 30 minute distance from the racetrack. This takes into account the proposed Lawrence County, Pennsylvania racing/gaming program.

Indiana Downs (Shelbyville, IN – GAP 320,000)

This dual-breed (up to 2012) facility opened in 2002 and its annual facility handle is projected to be similar to Mahoning Valley. Total seating is just over 1,200 with only 634 of those seats with a direct view of the racetrack.

Meadows Race Track and Casino (Washington, PA – GAP 298,000)

This year-round harness track was rebuilt in 2009 and is a market of similar size to Mahoning Valley. While stating 1,146 seats for racing, only 120 of those are enclosed overlooking the racetrack (in a steakhouse). All tiered seating overlooking the racetrack is outside (400) and only partially covered.

Penn National Race Course (Grantville, PA – GAP 275,000)

Penn built this new facility in 2008 with total seating of 1,202 and 734 of those being interior seats with a direct track view. Over 50% of those direct view seats are in the track restaurant. At the March 20 OSRC meeting Penn showed a detailed visual tour of Penn National on a Friday afternoon and evening that featured simulcasting and live racing and clearly indicated excess capacity in its seating areas.

For comparative purposes the last proposal for Mahoning Valley from Penn detailed 518 interior seats with a direct track view, another 242 seats in the racing levels for dining and simulcasting, a 16 seat smoking porch with a track view and 650 exterior bleacher seats for a total of 1,426 – more total seating than any of the comparable tracks listed above.

Dayton Raceway represents a GAP of 540,000 adjusted for the anticipated Miami Valley facility in the same market. As we noted earlier, both Dayton area harness racing proposals call for similar seating capacities based on the most recent submissions to the OSRC.

Dayton's proposal has 306 enclosed, direct track view seats for racing, an additional 212 covered seats with a direct track view, 212 additional enclosed dining and simulcast seats, 40 additional covered seats, a 10 seat smoking porch with a track view and 650 uncovered bleacher seats for a total capacity of 1,430.

We point to the following comparables for the Commission's review:

Harrah's Philadelphia (Chester, PA – GAP 979,000)

Built in 2006 and arguably one of the leading harness tracks in North America in terms of racing purses and quality, this facility has ZERO enclosed seats overlooking the racetrack. It has over 2,000 seats outside, uncovered, overlooking the racetrack and approximately 300 seats in a simulcast theater setting with no view of the racetrack.

Running Aces (Columbus, MN – GAP 689,000)

One of the newest harness racing facilities built in the United States (2008.) The facility has a poker room, a small tiered dining room (240 seats) and enclosed ground level seating (200).

Mohegan Sun at Pocono Downs (Wilkes-Barre, PA – GAP 295,000)

While on the lower side of the market size compared to Dayton, Pocono Downs boasts one of the stronger “middle market” harness racing products in the country. It was partially rebuilt in 2006 and has only interior seating in its 400 seat dining room. Another 650 seats are in a simulcast facility with no track view and on loose seating on an outdoor deck overlooking the track.

Despite these limited direct track viewing opportunities, Pocono Downs hosted the biggest night time event in harness racing, The Breeders Crown, in 2010, and will host the event again in 2013.

We also wish the Commission to note that none of the above comparable racetracks have close to the now mandated 1,000 seats in a climate controlled building directly overlooking the racetrack.

The Commission must also be realistic as to the impact gaming has had when integrated with racing. “Racinos” are now commonplace and there is ample statistical information regarding the impact on racing. Impact to agri-business, in terms of breeding and purses for horsemen, has been substantial, however, the impact on pari-mutuel wagering, and track attendance, has unfortunately brought sobering figures.

Indiana is often cited as a state that has “done it right” with the combination of racing and gaming. According to the Indiana Racing Commission’s annual reports, from 2006 to 2011, despite a 10% increase in live racing dates, handle on live races, at Indiana Racetracks, has fallen 23%. Wagering on horse racing, live and simulcast, in the state has fallen 31% in that same time frame.

Pennsylvania is another state regarded for its successful integration of racing and gaming. According to the Pennsylvania Gaming Control Board, from 2008 to 2012, live racing dates increased 6% and live races increased 11% yet on-track handle on live races decreased 7%. These are not isolated statistics. In fact, they are representative of a national trend.

VI) Local Project Communities Support Phased Approach and Resolution

Penn has proactively worked with the communities at the project sites to build a facility that each community can be proud of, and supports jobs and economic development. Penn has received overwhelming support from Dayton and the Mahoning Valley on the proposed current project plans. These communities unanimously urge the Commission to promptly accept Penn's compromise position. Significantly, the communities see the wisdom of the Commission on have racing facilities that move racing forward in Ohio, but support as well a measured approach on only expanding facilities if business demand requires.

Thank you for the opportunity to present a path forward on the relocation projects. Penn looks forward to working with you and the Commission to finalize approvals and bring much needed revenue, jobs and revitalization to the State of Ohio and its horse racing industries. Please let me know if we can in the near term parameters on a phased facility plan approach based on market demand.

I look forward to meeting with you soon and appreciate your reconsideration of our relocation applications.

Very Truly Yours,

Steven Snyder
Senior Vice President - Corporate Development

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