

**REMARKS OF RAYMOND V. CASEY, PRESIDENT AND CEO OF THE NEW
YORK CITY OFF-TRACK BETTING CORPORATION**

**Delivered Before the Finance Committee of the Council of the City of New York on
December 4, 2007**

Chairman Weprin and Committee Members:

I am pleased to have this opportunity to appear before the Committee. It is, as you know, a return engagement. A little more than two years ago, on October 28, 2005, I gave testimony before this Committee on the general subject of the state of NYCOTB's financial well being. At that time, I noted I had the privilege to serve as President and Chief Executive of NYCOTB for about 3 years. Well now, I have two full years more under my belt but, still, what I have to say to you today is really no different than what I reported in 2005. As you just heard, the financial well being of NYCOTB continues to be deeply clouded, not by the operating performance of the Corporation and its dedicated cadre of some 1,500 loyal and hard working employees, but by the severely flawed scheme imposed by the State Legislature for the distribution of retained commissions earned by NYCOTB on the more than \$ 1 Billion in wagering handle accepted annually at the network of branches, restaurant wagering facilities, teletheatres and the Account Wagering Center that NYCOTB operates.

In my 2005 testimony I told you that NYCOTB's original mandate was: 1) to raise a reasonable revenue for government; 2) to prevent or curb unlawful bookmaking on horse races, and; 3) to conduct off-track betting in keeping with the well being of the state's horseracing and breeding industries. But the balanced distribution scheme that equitably divided payments between government and the horse racing and breeding industries for many years was put out of balance by intervening legislation. It should be kept in mind that during the first 13 years of NYCOTB's operation the Racing Industry received on average only 20% of NYCOTB's operating revenue, whereas for the past few

years it has taken over nearly twice that percentage. In other words, if the legislative scheme that existed back then was still in effect, NYCOTB would have \$32 Million more available for its expenses and for distribution to New York City. That's why, absent significant changes to the statutory scheme that would require the OTBs to pay distributions only from their net revenue and would otherwise align the interests of the tracks and the OTBs, NYCOTB and the other OTBs will no longer be able to fulfill their statutory mission of generating revenue for the support of local government.

In the ensuing two years the situation has gotten even worse. The Legislature has not yet taken any action to restore a balanced equilibrium to the Racing, Pari-Mutuel Wagering and Breeding Law so that NYCOTB (and the five other NYS Regional OTBs) can continue to operate as reliable sources of revenue for local government. Much of their focus has been on what to do with the Racing franchise – which as you may have read in the press, is still unresolved.

The last time I testified, I told you that in FY 2004 and 2005, we were required to pay out more money than we generated. In both years over 70% went to the Racing Industry alone and the rest was left for government. That trend has continued for FY 2006 and 2007. Notwithstanding record-breaking operating revenue of just over \$261 Million in 2006, New York City received only \$ 17.6 Million, or 12.7% of the total distributions of \$143 Million, while the Racing Industry received approximately 72%. For 2007, the Racing Industry got a slightly larger percentage, 73%, while the City share went down to 12.5% of the distributions, or \$16.8 Million.

This trend of diminishing revenue to the City brought about by, among other things, larger impositions by the State on NYCOTB's revenues and the normal escalation of ordinary expenses of operating a business such as wages, health benefits, pension contributions, etc., continues. This is why Mayor Bloomberg has taken the position that the City cannot be expected to – and will not – continue to allow this diversion of larger and larger amounts of NYCOTB operating revenues to be given as inflated subsidies to the racing industry and/or the State. The Mayor's recent statements come in the context

of a legislative scheme of mandated distributions that requires NYCOTB to make payments to stakeholders based on a percentage of gross "handle" instead of net operating revenue. This has had the effect of forcing NYCOTB to distribute more than its considerable operating profit for the last several years and denies us the resources for reinvestment in the improvement of our own facilities and product. This "broken" legislative scheme has assured the insolvency of NYCOTB -- as it will assure the future insolvency of all the other OTBs in the State.

As a consequence, at the recent meeting of the NYCOTB Board of Directors held on November 19, 2007, I was directed to prepare a plan for the orderly wind down of the Corporation's activities as a depletion of cash available for operations (what I would term "unrestricted cash") looms. At present, our forecast is that, without the long requested legislative change to the distribution framework, NYCOTB's unrestricted cash will be exhausted by the end of the current fiscal year in June of 2008. When this occurs, without the means internally to generate cash for continued operations, or an external infusion of cash, NYCOTB will be forced to close its doors. One caveat is in order here. Last Thursday, November 29, the Appellate Division, Third Department in Albany issued a decision in litigation that NYCOTB had initiated against the State Racing and Wagering Board. In this decision, the appellate court ruled that certain payments the OTBs have been required to make to their regional harness tracks under a Racing Board interpretation of the law were not in fact required under the law. The full financial impact of this decision upon NYCOTB is still being evaluated, and there is no assurance that there will be any material change in the Corporation's unrestricted cash balances as of the end of the current fiscal year as a result of the decision. That caveat aside, then, closing our doors will impact our employees -- labor and management alike -- as well as the entire racing industry in the Empire State. Some of these stakeholders are in the room today. One state breeding fund stands to lose over one-third of its revenue upon a closure of NYCOTB's operations. One principal of that fund recently told me "if you are out of business on June 30th, we are out of business on July 1st."

Although our wind down Plan is in its initial development stage, and therefore there are few details to share with you today, you should rest assured that we will make every effort under the Plan to assist our employees in any practical way available. But as you may imagine, those very same liquidity problems that will cause us to shut our doors, will also dictate just how much help we can provide. It is anticipated that cessation of the Corporation's business operations and the closure of all of our business outlets, *i.e.*, our 61 betting parlors, 3 teletheaters, 8 restaurant wagering facilities and telephone and internet account wagering, along with the displacement of our workforce, will all occur within a relatively short timeframe, as will the removal and securing of our cash. After this initial shut down activity, we will then be left with only skeleton staff at the corporate headquarters and our warehouse to conduct and manage the remaining aspects of the business. It may require a full month or more after the closure of our outlets to remove and secure all furniture and equipment. Final auditing and cash reconciliations of the locations will also need to be completed. With respect to our leases -- since all of our parlors and teletheaters are leased -- staff and our outside real estate consultants will attempt, wherever and to the fullest extent possible, to sublease or assign the leased premises or negotiate some other form of surrender/lease termination with the landlords.

With respect to our employees, there will need to be complete compliance with all applicable statutory and contractual notice requirements, and certainly we will look into whether and to what extent NYCOTB will be in a position to offer severance packages. We will also assist our employees in efforts to find future employment through possible redeployment in the City government, or at other OTBs and at racetracks. Job fairs will also be considered.

The prospect of such a cessation of operations is certainly unattractive, and frankly devastating to our loyal employees and their families. Unfortunately, there are now simply no responsible alternatives. Specifically, for the last several legislative sessions in Albany, NYCOTB and the Mayor's Office proposed several omnibus racing bills to be considered by both chambers. We were supported in these efforts by the unions representing our workers. Indeed, I believe you will hear testimony today from the

President of Local 2021 of DC37, which represents the largest portion of OTB's workforce. Our sister OTBs and other entities throughout the State have joined us in voicing our concerns.

I am pleased to answer any questions that the Committee Members might have.

District Council 37
Testimony before the New York City
Finance Committee Hearing on
Off Track Betting (OTB)

Tuesday, December 4, 2007

Good Morning Chairman Weprin and the Members of the Finance Committee. My name is Wanda Williams and I am the Director of Political Action and Legislation (PAL) for District Council 37 (DC37).

As you know, District Council 37 is the largest Public Service Municipal Labor Union in New York City, representing over 121,000 members, 50,000 retirees, 56 locals, 1000 titles and all spectrums of members- white collar workers, blue collar workers, Professional workers, Clerical Workers, Hospital Workers and School employees.

Local 2021 – New York City Off -Track Betting Employees is one of DC37's 56 autonomous and independent locals that makeup the amalgamation of DC37's locals. Local 2021 represents 1400 hard working employees throughout NYC.

Since the establishment of Off-Track Betting (OTB) these employees have provided exemplary service to the Corporation and have been apart of the success that OTB has experienced throughout its existence. They want to continue to be part of providing their exemplary service to OTB. This will only occur if the New York State Legislature takes action and provides NYC with its fair share of revenue that OTB generates by changing the current revenue distribution formula. To do less will threaten the very existence of OTB and its ability to operate. To continue the disproportionate short-changing of NYC in the revenue sharing formula simply put amounts to unwise decision-making.

For years DC37 and Local 2021 has enjoyed a very good working relationship with OTB. The NYC OTB is unionized and our members play a very integral part in the operations of OTB. We want them to continue to be in a position to do so.

The findings of Comptroller Thompson's report of July 24, 2006 found that OTB's payments to the racing industry and the state were absorbing a growing portion of its revenues, squeezing out revenues for the City. *Between Fiscal years 1997 and 2001, the City received an average of \$11 million in revenues from OTB. The number fell to just \$1 million in 2002; the City did not receive any revenues in FY 2003 and FY 2005.*

In FY 1995, total surcharges due to the City were 24% of statutory distributions, but by FY 2005, those surcharges due to the City had dropped to 14 percent. Meanwhile payments to the racing industry increased from 55 percent of statutory distributions in FY 1995 to 70 percent in FY 2005.

In conclusion, a fair and equitable solution must be found to make both NYC and OTB whole. To do anything less amounts to an egregious action which will only continue to deny NYC its fair share, threaten the operations of OTB and potentially mean the loss of jobs for hardworking local 2021 members who would be the undeserved inheritors of continued inaction.

We urge you to urge your colleagues in Albany to find a workable solution NOW, not next month, not next session, NOW because time is of the essence and a solution can't wait.

Thank you for bringing attention to this most important issue.

Testimony of Leonard Allen
President, Local 2021, District Council 37, AFSCME
Before the New York City Council Finance Committee
Tuesday, December 4, 2007

Thank you Chairman Weprin and my thanks as well to Speaker Quinn, the members of the Finance Committee, and the Finance Division staff for allowing me the opportunity to present my views on the future of New York City Off Track Betting. My name is Leonard Allen and I am the president of Local 2021, District Council 37 AFSCME representing the 1,400 hard working employees of OTB.

I believe that it is important to begin my remarks today by reminding everyone that thanks to the diligence and dedication of the members of Local 2021, New York City OTB will earn a \$125 million profit this year. The workers I represent do a tremendous job but their livelihoods are threatened by antiquated state formulas which require OTB to pay out \$134 Million to racetracks, the horse racing industry, and government. As a result of this inequity, Mayor Bloomberg recently announced plans to shut down OTB at the end of the current fiscal year. I sincerely appreciate your efforts today to shed some light on this issue.

If it were up to me this hearing would have been held in Albany and not at City Hall for it is in Albany that the solution to our problems lie. As you have already heard, the problem with OTB is not that it does not earn money but that the state of New York takes more money out of our operation than is sustainable.

As a 2006 report by Comptroller William Thompson found, between our payments to the various tracks around the state and what the state siphons off, there is not enough money to make all the payments required by statute to the City of New York. While OTB was founded in part to support racing, the other parts of its mission are to provide revenues to the City as well as help to combat illegal gambling through bookmakers.

There is an answer to our problem, and I will try to keep this simple, although nothing is simple in government. The formula by which OTB's revenues are distributed must be changed from one which is based on our gross revenues to one based on our net revenues. As I said before, OTB cannot pay out more money than it has available to it. OTB cannot do this nor can any other entity which hopes to function.

There is a bigger picture that I want to talk about today. I am not just here to talk about the 1,400 jobs of my brothers and sisters at Local 2021, but I am also here to recognize that there are nearly 40,000 jobs throughout the state which are dependent on the future of New York City OTB.

As you may know, New York City OTB is the backbone for the entire racing industry in the state. Approximately 40% of all of the wagering on racing in New York State is done at New York City OTB. If New York City OTB shuts down, the vast majority of those bets will disappear, as will the revenue they provide to support those 40,000 jobs. In short, if we go out of business, and my members lose their jobs, they will be quickly followed by clerks at Aqueduct, food service workers at Belmont, and farmhands at more than a thousand farms across upstate New York that are dependent on the revenue stream that OTB provides.

It is simply appalling that the state Legislature has failed to act to protect these jobs and the future of this industry. I urge the Council to join with us and ask

your colleagues in state government to correct this inequitable formula before it is too late.

In the past several years the state has granted many tracks in this state access to Video Lottery Terminals and their revenues. At this point, nearly every other racing entity in this state has seen financial relief from the state in the past few years except for New York City OTB and the other regional OTBs. Our OTB is not the only one that is in a precarious position because of the unfair formula, but I will tell you that no other OTB has to pay the rents that New York City landlords charge and no other OTB is as fully unionized as is New York City OTB.

We stand prepared to work with the Legislature, Governor Spitzer, Mayor Bloomberg, and the Council to fix this problem to benefit all the racing entities in this state and the tens of thousands of jobs they support.

Again I thank you for your time and I would like to once again thank Speaker Quinn, Chairman Weprin, and the Council for calling attention to this important issue.

NYC Off-Track Betting's Financial Crisis

City Council Finance Committee Hearing

December 4, 2007

OTB Announcement

"I have always had concerns about the participation of City government in gambling. Making matters worse, it is entirely unacceptable for the City to risk losing money on such a questionable endeavor. Years of State legislative schemes that favored racing interests at the expense of NYC OTB have forced the City into a financially untenable situation in which it is, in effect, asked to subsidize the State racing industry at City taxpayer expense."

Mayor Michael R. Bloomberg
November 15, 2007

OTB's Operating Results

- ❖ OTB's operating results have been steady since 2002.
- ❖ During this period, OTB has generated steady operating profits.

\$ in Millions

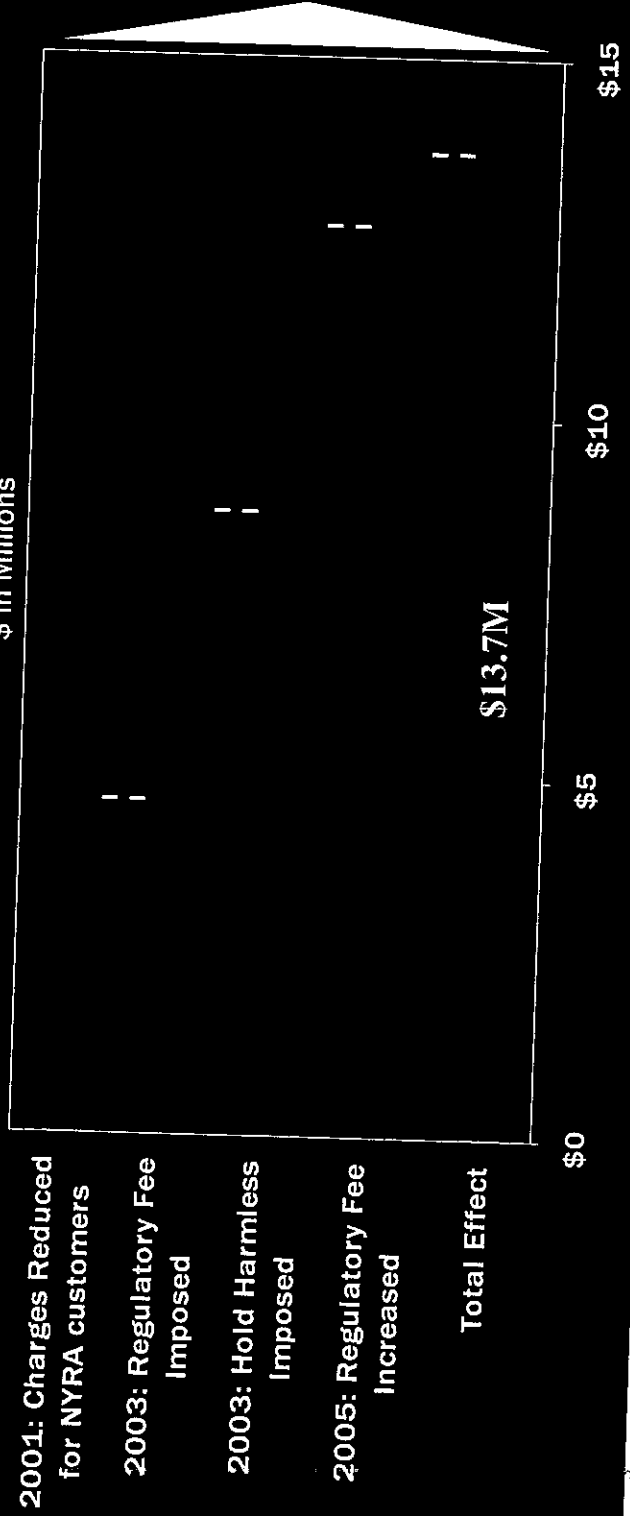
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Handle (total wagers)	\$1,027	\$1,008	\$1,043	\$1,026	\$1,071	\$1,041
Revenue	251	246	253	251	261	256
Operating Expenses ¹	119	116	125	122	125	127
Operating Profit	\$132	\$130	\$128	\$129	\$137 ²	\$129

¹ Figures are net of the non-cash expenses of depreciation and the unfunded portion of Other Post Employment Benefits (OPEBs).
² Slight difference is due to rounding.

Legislatively-Imposed Payments

- ❖ Beyond operating expenses, New York State law mandates that OTB make distributions to the racing industry and to the State itself.
 - Most of these payments are based on a percentage of handle, not profits.
- ❖ Starting at \$131M in 2001, recent State actions have further increased this burden.

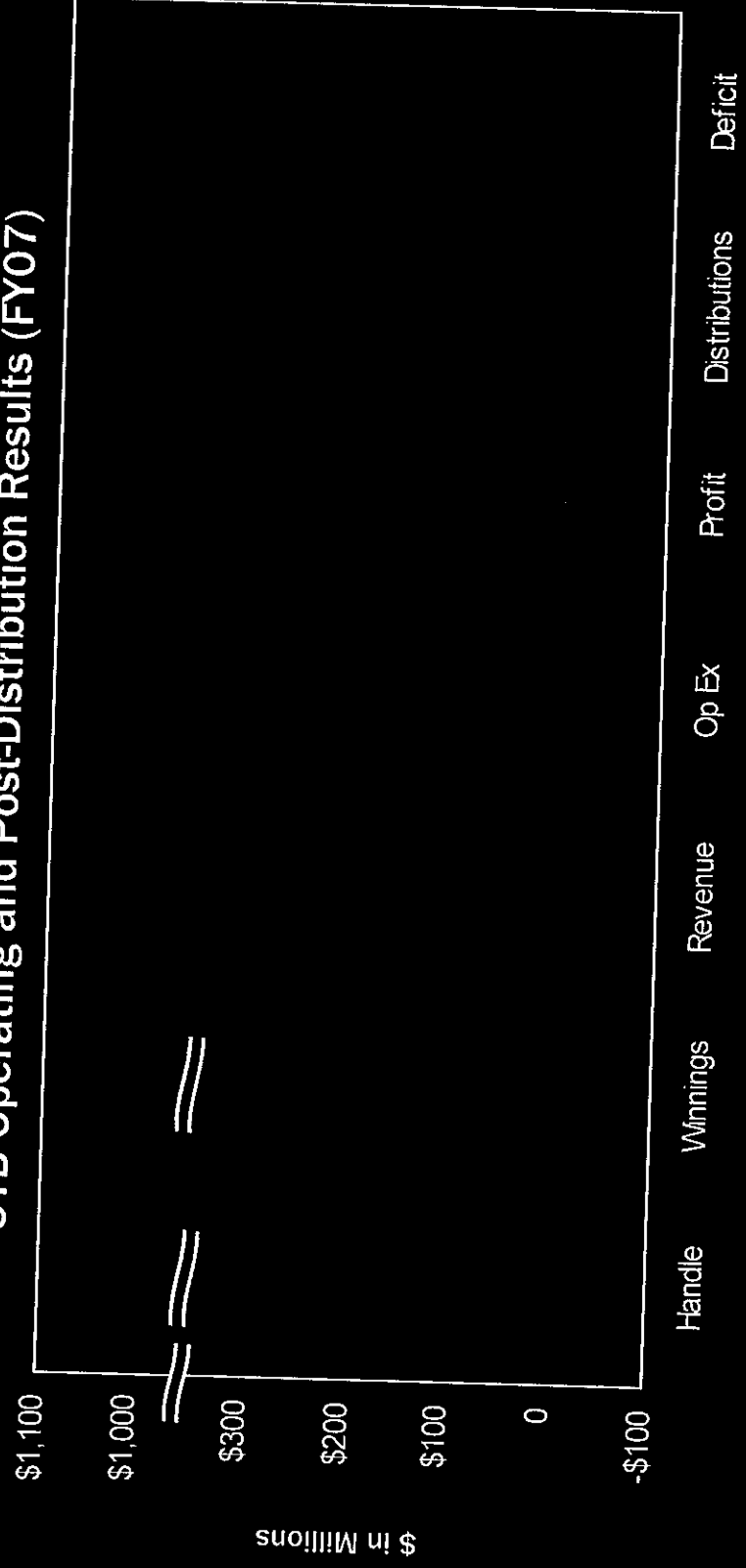
Annual Impact of Additional Legislatively-Imposed Payments
\$ in Millions



FY07 Financial Performance

- ❖ OTB produced a significant operating profit in FY07.
- ❖ State mandated distributions resulted in a deficit of \$9M in FY07.

OTB Operating and Post-Distribution Results (FY07)



Sustained Annual Deficits

- ❖ Steady operating profits and rising legislatively-imposed payments have resulted in four consecutive years of deficits.
- ❖ Given current conditions, deficits are projected to continue into the future.

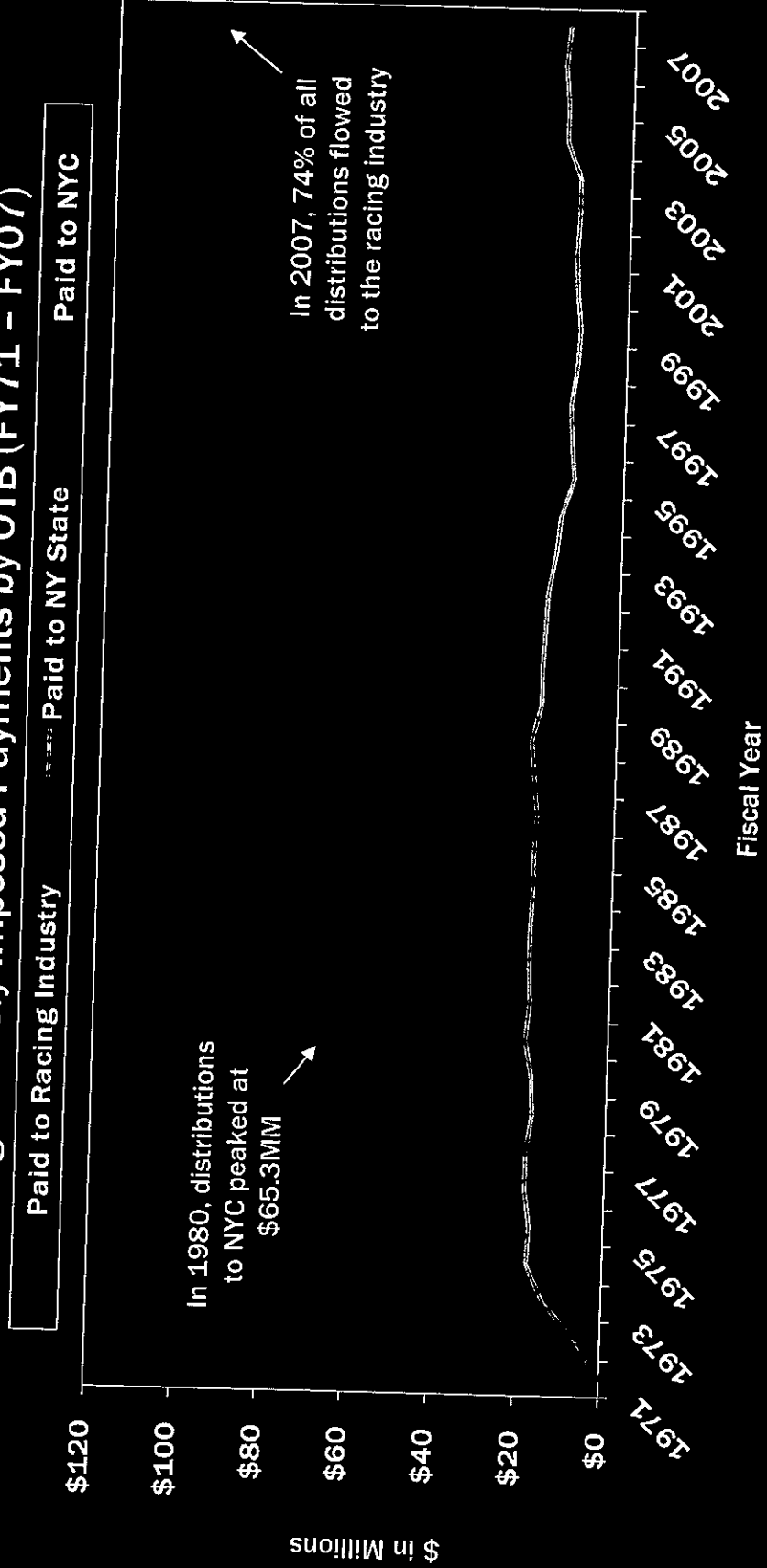
\$ in Millions

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Operating Profit	\$132	\$130	\$128	\$129	\$137	\$129
Total Distributions	130	128	138	135	143	138
Surplus/Deficit	\$2	\$2				

Allocation of Legislatively-Imposed Payments

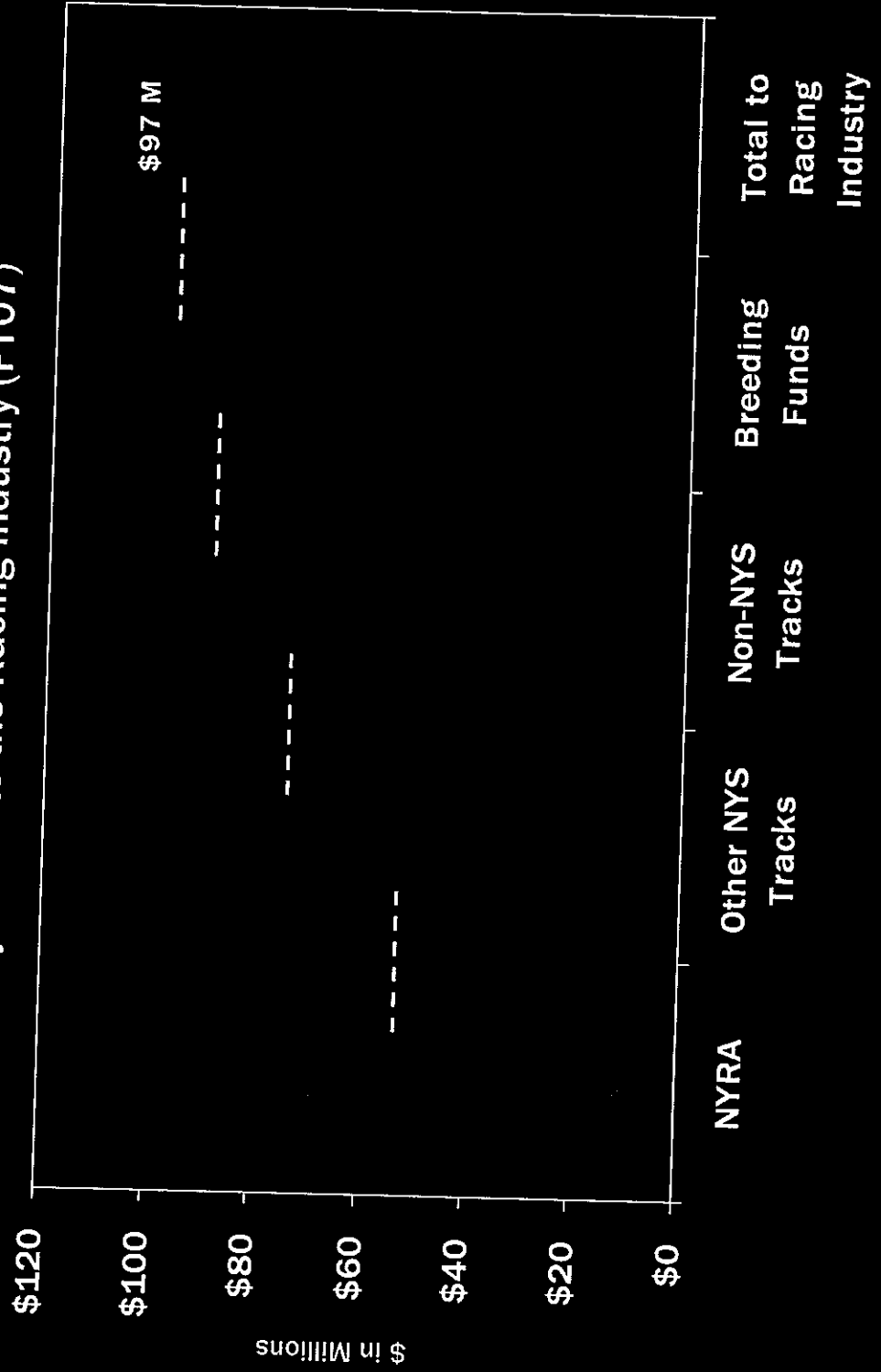
- ❖ Distributions to the Racing Industry have risen while those to the City have fallen.

Legislatively-Imposed Payments by OTB (FY71 - FY07)



Allocation of Legislatively-Imposed Payments

Payments to the Racing Industry (FY07)



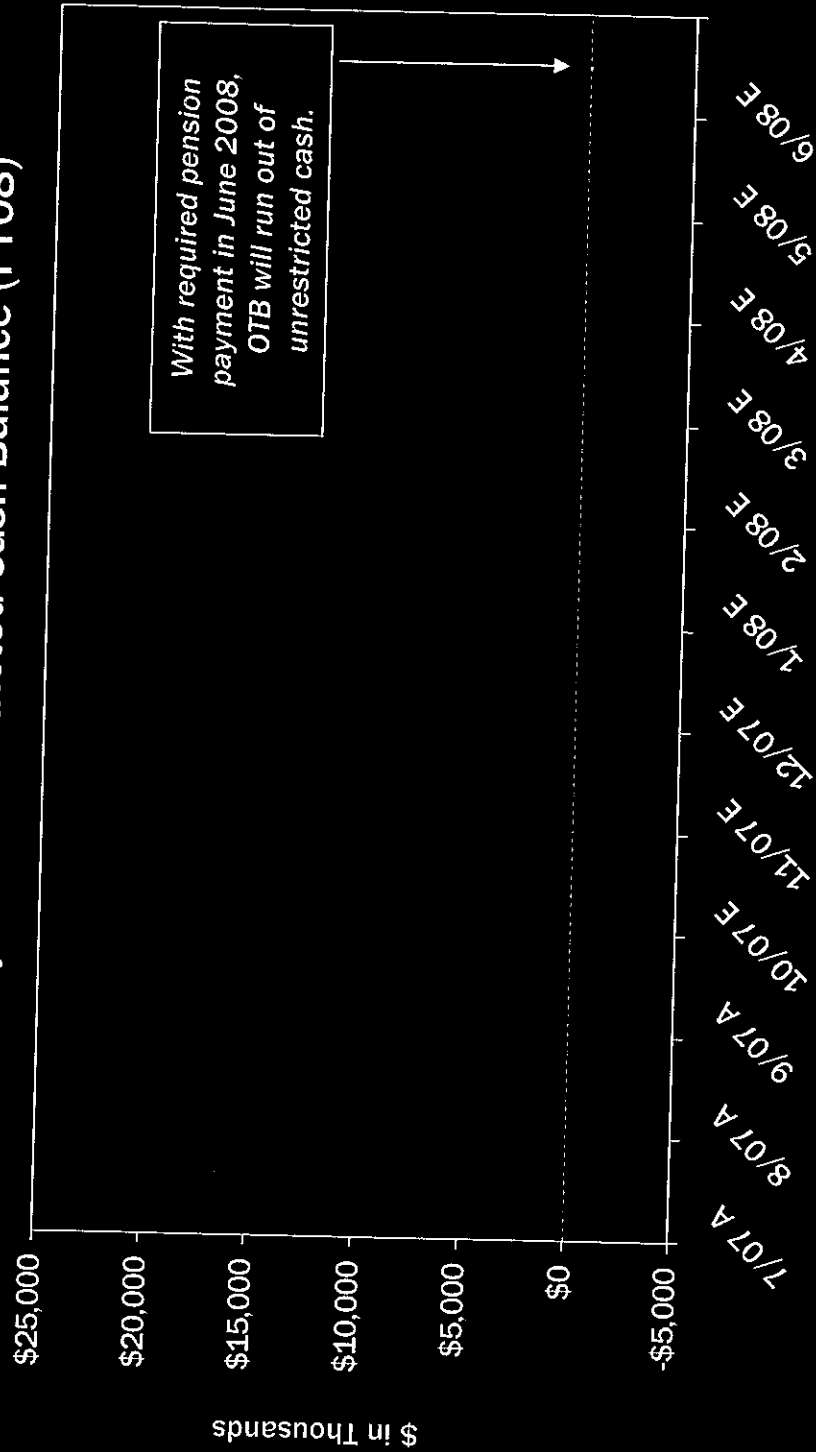
OTB Operating Practices

- ❖ Expense reductions
 - OTB has reduced senior staff, closed locations and cut operating hours.
 - These efforts have reduced but not eliminated the continued deficits caused by increasing mandated payments.
- ❖ Short-term cash management solutions
 - OTB has averted financial collapse by instituting cash flow management techniques, including delaying payments to the racing industry.
 - OTB has stayed afloat by increasing amounts owed to others, an unsustainable practice.
- ❖ OTB is now being forced to spend down its limited remaining unrestricted cash balances.

Turning Cash Negative at End of FY08

- ❖ OTB is projected to run out of unrestricted cash in June 2008.

Monthly OTB Unrestricted Cash Balance (FY08)



Short Term Measures Do Not Solve Long-Term Issue

- ❖ City's distribution should not be used to cover OTB's deficit:
 - OTB has been insolvent since FY06 and the City should not throw money into an unsustainable situation;
 - A reduction solely in the City's distributions would give even more preference to racing interests over City taxpayers;
 - A reduction solely in the City's distribution would only delay the inevitable. OTB's cash shortfall is projected to exceed the City's distribution in FY09.

OTB Distributions to NYC vs. Cash Shortfalls

