



The New York Racing Association, Inc.

**Meeting of the Board of Directors
Wednesday, December 14, 2016
11:00AM**



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**Empire State Development Corporation
633 Third Avenue
New York, NY 10017**

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AGENDA

1. Approval of August 10, 2016 Minutes (Resolution)
2. Report of the Vice-Chairman
3. Report of the CEO and President
4. Report of the CFO
 - a. Summary of Financial Condition and Unaudited Results of Operations for Fiscal Quarter Ended September 30, 2016.
 - b. 2017 Operating and Capital Budget
5. Report of the General Counsel
 - a. NYRA's Compliance with NYS Performance Metrics in 2015
6. Committee Reports
 - a. Compensation Committee
 - b. Finance & Audit Committee
 - c. Racing Committee
 - d. Equine Safety Committee
7. Dates for 2017 Board of Directors Meeting
8. New Business

Adjournment

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APPROVED MINUTES OF THE MEETING
of
THE BOARD OF DIRECTORS
of
THE NEW YORK RACING ASSOCIATION, INC.

August 10, 2016 at 10:30 a.m.

A meeting of the Board of Directors (the “Board”) of The New York Racing Association, Inc. (“NYRA”) was conducted on August 10, 2016, at 10:30 a.m. at the Holiday Inn, located in Saratoga Springs, New York pursuant to notice duly given.

The following Directors were present (either in person or via videoconference):

Michael J. Del Giudice, *Vice Chair*
Michael Dubb
Marc Holliday
Stuart S. Janney, III
Georgeanna Nugent Lussier
Earle Mack
Chris Mara
Robert Megna
Stuart Subotnick
Vincent Tese
Jeffrey Cannizzo, *ex officio*
Richard A. Violette, Jr., *ex officio*

The following Directors were present via teleconference:

C. Steven Duncker
Robert Flay
Joseph Spinelli

The following Directors were not present:

Leonard Riggio
Andrew Rosen

Also present were Christopher Kay, CEO and President; Joseph J. Lambert, SVP, Chief Administrative Officer, General Counsel and Corporate Secretary; Gordon Lavalette, Chief Financial Officer; Lynn LaRocca, Chief Experience Officer; Martin Panza, SVP, Racing Operations; David O’Rourke, Chief Revenue Officer; Tony Allevalo, President, NYRA Bets; and Jelena Alonso, Controller.

The meeting was called to order. Mr. Lambert recorded the minutes. A roll call of the Directors was conducted.

Approval of May 25, 2016 Minutes

The Board reviewed the minutes of the May 25, 2016 meeting of the NYRA Board of Directors. Upon motion, duly made and seconded, the Board unanimously approved the minutes of the May 25, 2016 meeting, without dissent or abstentions, and directed that the minutes be added to the permanent records of the corporation. A copy of the resolution is attached hereto as *Exhibit 1*.

Report of the Vice Chairman

Mr. Del Giudice provided an update on the proposed reprivatization of NYRA, noting that the process is ongoing and will continue into the early part of next year.

Report of the Chief Executive Officer and President

Mr. Kay presented his report to the Board, welcoming the members to Saratoga.

Mr. Kay then discussed the three main focal points of NYRA's reorganization business strategy, decided upon after the formation of the current Board, which are 1) the enhancement of the guest experience, both onsite and online; 2) improvement of the quality of racing; and 3) development of a strong financial foundation for NYRA in the future.

Mr. Kay discussed the strong financial performance of the first sixteen days of the Saratoga meet, noting that both all source handle and attendance was up 1.5%, as compared to the prior year, despite a reduction in on-track handle of 4.25% that was attributable to bad weather and the increased usage of mobile applications.

Mr. Kay attributed the success that NYRA is achieving to its progress in reaching its three key objectives. Mr. Kay then introduced Ms. LaRocca who reported on the improvements at Saratoga to the Fourstardave Sports Bar, the Easygoer, the Travers Bar, and the Saratoga Pavilion, as well as the introduction of the NYRA Bets Squad to aid casual bettors, and the Season Perks Program which offers additional discounts to NYRA's season pass and season seat holders.

Mr. Kay then introduced Mr. Panza who advised the Board on NYRA's efforts to achieve the second of NYRA's objectives, the improvement of the quality of racing, by using incentive awards to encourage two year-old horses to race at NYRA's tracks earlier in the year, and placing renewed focus on the quality of racing on Saturdays, the busiest racing day of the week.

As to NYRA's third objective, Mr. Kay introduced Mr. O'Rourke who discussed the launch of NYRAbets, our new national advance deposit wagering site. NYRAbets provides a state of the art electronic venue where the public in and outside of New York can wager on horse races.

Mr. O'Rourke reported to the Board on the financial statistics for ADWs, noting that they account for approximately \$3.5 billion, or roughly 1/3 of the U.S. racing handle. Mr. O'Rourke went on to note that, within the ADW category, mobile is by far the fastest growing sub-segment. Mr. O'Rourke continued his report, highlighting NYRA's efforts over the last two years to focus on three specific objectives; 1) to develop a premium wagering platform, 2) to

expand our high definition production capabilities, and 3) to implement advanced online streaming products that will set new benchmarks for the industry.

Mr. O'Rourke then introduced Tony Allevato, highlighting his significant experience in the combined fields of sports broadcasting and wagering. Mr. Allevato noted the various new strategies being employed to engage NYRA's guests, from catering to a younger audience of guests who prefer live streaming on their personal devices to watching cable television through NYRAbets, to the first ever live racing show on MSG Network and Fox Sports with content entirely created and produced by NYRA.

Report of the Chief Financial Officer

Mr. Kay then introduced Gordon Lavallette, new Chief Financial Officer, to the Board, and spoke briefly about Mr. Lavallette's prior related career experience working for professional sports franchises and in the television industry.

Mr. Lavallette presented his report to the Board, conducting a review on the second quarter financial statements, including revenue and operating expenses, VLT revenue, capital improvements, and operational trends.

Committee Reports

a. Equine Safety Committee

Mr. Holliday delivered his report to the Board, which included a discussion of a report issued by the New York Task Force on Racehorse Health and Safety. Mr. Holliday then updated the Board on ongoing discussions for the possible establishment of a state of the art equine medical testing facility in New York. Mr. Holliday concluded his report by discussing NYRA's CRI of 1.2 through June 2016 compared to 1.6 in the prior year, which remains well below the national average CRI of 1.63.

b. Finance & Audit Committee

Mr. Subotnick delivered a brief recap of the second quarter financial results, previously discussed by Mr. Lavallette, with particular focus on handle and the capital budget.

Adjournment

The Chairman called for additional business. There being no further business to come before the Board, the meeting was concluded at 11:55 a.m.

Joseph J. Lambert

MAY 25, 2016 BOARD OF DIRECTORS MEETING MINUTES RESOLUTION

IT IS HEREBY RESOLVED, that the NYRA Board of Directors does hereby approve the minutes of the regular May 25, 2016 Board of Directors meeting and the minutes are ordered to be added to the permanent records of the corporation.

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SHOWING OFF A NEW, BETTER AQUEDUCT

by **Anthony O'Reilly**,
Associate Editor
DEC. 1, 2016

NYRA TAKES STATE POLS, MEDIA ON TOUR OF THE RENOVATED RACE TRACK

As members of the press and elected officials looked out on the course at Aqueduct Race Track on Tuesday, Arlene Brown, a representative of Councilman Eric Ulrich (R-Ozone Park), not only felt like she was at a revived racing ground, but in a different town.

"You don't even feel like you're in Queens anymore," Brown said. "With the old track, it was in very poor condition and you couldn't wait to get out. This is a lot more welcoming, it's very warming, it's very friendly and very clean."

Even on the rainy, overcast day, Brown and others were able to see just how much Aqueduct has changed since the New York Racing Association invested more than \$15 million into it since 2013.

"A lot of people have come up to me and said, 'This is great,'" said Chris Kay, CEO of NYRA. "It's a state-of-the-art facility."

The improvements were touted during a tour of the racetrack for the media and the two state politicians for the area — Assemblywoman-elect Stacey Pheffer Amato and state Sen. Joe Addabbo Jr. (D-Howard Beach), ranking member of the Racing, Gaming and Wagering Committee.

"It's amazing to see the improvements here," Addabbo said. "We're not Belmont, we're not Saratoga. But while [Aqueduct] is working, the 200 acres here have to be maintained."

The South Ozone Park race course has not been without its problems in the past. For years, it was the stepchild of NYRA's three tracks with very little to no money going to it, leading to a decrepit facility.

As recently as 2015, there have been is-

suues with horses dying during or shortly after races there. It was revealed in October that workers there were dumping millions of gallons of water containing contaminants, including animal waste, from the racetrack into storm drains. There have been several proposals to shut it down, but those have mostly subsided after the adjacent Resorts World Casino was approved by the state on the condition that a racetrack had to remain on the grounds.

Addabbo said there haven't been any recent proposals to close the track, adding, "While we have Aqueduct, we work for the day."

The tour was led by Glen Kozak, NYRA's vice president for facilities and racing surfaces, who quickly pointed out one of the simplest and most obvious changes made to the facility — the paint. The new color scheme, a mixture of bright, vibrant hues, is a stark contrast from the dreary interior of old.

As the tour progressed, Kozak pointed out murals by classical and urban painters around the building — an initiative meant to liven up the facility. Pheffer Amato encouraged NYRA officials to bring art students from area schools to see the paintings.

"When I was in college, I used to hate having to go into the city to see art," she said. "If we have it right here, why not take advantage of it?"

The officials said they would take her suggestion into consideration. On many levels of the facility, Kozak pointed out improved betting carols where visitors can place their wagers. The carols promote privacy for bettors who can gamble on races not just at Aqueduct, but around the

country.

Since the renovations, NYRA officials have seen increased enthusiasm from their visitors.

"They love this place, they get fired up," Kay said. "Some people have fallen in love with the place. They get here early because they want to get to their lucky carol."

Kozak pointed out that Aqueduct had 4,000 visitors on Thanksgiving Day — when the first post was at about 11:30 a.m.

But it isn't just the guests NYRA is looking to impress at Aqueduct.

There's also a new, indoor viewing section for horsemen, the owners of the racing equines, something that was not there before. Horsemen were made to sit outdoors during races, which did not make for optimal viewing during the winter months. Kozak said that was something NYRA has been criticized for in the past.

Speaking of seating, many of the chairs visitors sit in have been replaced with ones from the Camden Yards baseball stadium in Baltimore.

"We weren't able to get any from Yankee Stadium or Shea, unfortunately," Kozak told the tour attendees.

For those viewing from inside the facility, 557 HD televisions have been placed around the building, including one that broadcasts races in Spanish.

On the track, brush from the infield has been cleared away, and a refurbished pond has been put in. In regard to the course itself, Kay said Kozak's team has created a method to determine if it's safe for horses to run on it during the winter months and how to best respond to snowfalls.

Kay and Kozak said all the improvements focus on one theme: guest enhancement.



FOLLOWING \$15M FACELIFT, NYRA TRUMPETS 'MORE MODERN' AQUEDUCT

By Michael V. Cusenza DEC. 1, 2016

The New York Racing Association on Tuesday provided a guided tour of Aqueduct Racetrack to area elected officials and members of the press, highlighting the enhancements and improvements made to the South Ozone Park facility since 2013.

As a result, the 210-acre Aqueduct, according to NYRA, is now “a more modern, better run facility than ever before.”

“The New York Racing Association is proud of the improvements and enhancements made since 2013,” added NYRA Director of Communications Patrick McKenna, “and we look forward to welcoming our loyal fans back to the Big A throughout the winter months.”

The \$15 million financial commitment exceeds the amount spent on similar, guest-oriented capital improvements at Belmont Park over the same period of time, NYRA noted.

The association called the construction

of the state-of-the-art simulcast center, Longshots, with 270 dedicated carrels, a sports bar, and dozens of new HD televisions, “one of the most transformational additions” to the Big A.

“Soon to represent #Aqueduct, got a head start this morning by meeting with @TheNYRA to hear about improvements and ways to get even better!” Assemblywoman-elect Stacey Pheffer Amato tweeted on Tuesday morning.

Additionally, NYRA this week announced its annual “Toys for Tots” week-end of giving is scheduled for Saturday, Dec. 3 and Sunday, Dec. 4 at Aqueduct.

Offered in partnership with the U.S. Marine Corps Reserve “Toys for Tots” Foundation, with support from thoroughbred owner Harold Lerner and the New York Thoroughbred Horsemen’s Association, the TFT program collects and distributes new, unwrapped toys to local children in need each holiday season. Donation boxes will be located at Aqueduct’s main clubhouse entrance, as well as at the Turf and Field entrance.

“I really believe in anything you can do for kids that unfortunately get left behind in the holiday season; it’s a wonderful thing to put a smile on their face,” said Lerner. “I’ve been committed to this program for a number of years after being initially introduced to it by my trainer Gary

Contessa, who has been contributing part of his earnings to ‘Toys for Tots’ on a Saturday in the past for years and thankful to be a part of it again.”

For more information on the USMC Toys for Tots Foundation, visit toysfortots.org.

ENHANCEMENTS INCLUDE:

- Development and installation of the innovative “Aqueduct Murals” on both the interior and exterior of the facility.
- Development and construction of the ‘Silks Bar’ on the first floor, providing guests with improved service and amenities.
- Installation of 557 new high-definition televisions and several new HD video boards across the property, including a large infield HD display board.
- Installation of new lighting throughout the backstretch, across horse paths, and within parking lots.
- Upgrades to the infield, including a refurbished pond and new foliage, sod and shrubs.
- New paint schemes and art throughout the facility providing general improvements to the atmosphere.
- A new horsemen’s lounge above the paddock for owners and trainers.
- Enhanced Wi-Fi capability throughout the facility.
- Installation of Trakus technology for horseplayers.
- Installation of new, airport-style seating throughout the facility.
- Installation of hundreds of miles of modernized wire and cable throughout Aqueduct’s grandstand, clubhouse, paddock and infield. These modernizations, NYRA noted, provide vastly increased technological capacity.



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The New York Racing Association, Inc.

2017 Operating and Capital Budget

Management Discussion and Analysis



PRELIMINARY – TO BE APPROVED BY NYRA BOARD

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FORWARD LOOKING STATEMENT

The factors affecting NYRA's financial condition are complex. This document contains forecasts, projections and estimates that are based on expectations and assumptions which existed at the time they were prepared. Since many factors may materially affect fiscal and economic conditions for NYRA, the inclusion in this document of forecasts, projections, and estimates should not be regarded as a representation that such forecasts, projections, and estimates will occur. Forecasts, projections and estimates are not intended as representations of fact or guarantees of results. The words “expects,” “forecasts,” “projects,” “intends,” “anticipates,” “estimates,” and analogous expressions are intended to identify forward-looking statements in this document. Any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially and adversely from those projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of NYRA.

EXECUTIVE SUMMARY

In 2016, NYRA management examined several areas of NYRA's business, including our ADW business, broadcast strategy and technological infrastructure. By leveraging our assets more effectively, managing expenses closely and investing in areas that drive our business forward, NYRA has exceeded expectations for 2016 and has provided a solid foundation for 2017.

For 2017, NYRA is budgeting operating income from racing operations of \$2.1 million exclusive of VLT operating funds compared to \$2.3 million budgeted in 2016. NYRA is currently projecting operating income from racing operations of \$4.5 million for 2016, reflecting the benefits of another strong Saratoga meet, continued growth in the export ADW market and close management of operating expenses.

NYRA utilized a conservative approach in preparing the 2017 operating budget, particularly as it relates to topline performance. The impact of this conservative approach is shown in slightly reduced handle and associated pari-mutuel revenue, including expected reductions in NYS OTB revenue based on recent trends primarily from the downstate OTB sites. Operating expenses are also budgeted to decline as a result of reductions in telephone & communications, repairs & maintenance and other operating expenses offsetting an increase in labor costs driven by increased health benefits, collective bargaining agreements and a strategic headcount increase. In addition, NYRA is not budgeting bad debt expense for Nassau OTB as we have been informed we will receive statutorily required payments based on Nassau's agreement with Resorts World.

In 2017, NYRA intends to build upon the success of the prior three years and make strategic investments in its operations that will continue to strengthen the company. These key investments include initiating a ground-breaking venue technology with VenueNext, continuing to develop the NYRA Live! broadcast that is distributed to sixty-five million households through regional and national sports broadcast partners and marketing and promoting growth for NYRA Bets New York and other platforms.

Risks to Achieving the Operating Budget

There are risks to achieving the operating budget including potential increases in union labor costs, weather, impact of legislation, competitive pressures from external ADWs, success of marketing and sponsorship initiatives and the continued instability of the NYS OTB network.

Capital Expenditures

For 2017, NYRA plans to invest \$27.5 million in new capital improvements in addition to \$8.3 million in 2016 budgeted carryover projects for a total of \$35.9 million expected capital spend. For the past several years, NYRA has made significant investments in the racing surfaces and backstretch areas that directly benefit the horsemen. In 2017, NYRA will focus on improving the guest experience areas and upgrading its technology infrastructure, while continuing to improve the quality of life and safety of backstretch workers.

NYRA Operating Income from Racing Operations

RACING RELATED REVENUE

(in thousands)

	2017		2016		Change		2015		Change	
	BUDGET	FORECAST	\$	%	ACTUAL	\$	%		\$	%
On-track	\$132,159	\$132,377	(\$218)	(0.2%)	\$132,598	(\$439)	(0.3%)			
Export revenue	112,196	115,154	(2,958)	(2.6%)	114,075	(1,879)	(1.6%)			
New York OTB	23,144	24,151	(1,007)	(4.2%)	24,775	(1,631)	(6.6%)			
Total gross pari-mutuel revenue	\$267,498	\$271,682	(\$4,183)	(1.5%)	\$271,447	(\$3,949)	(1.5%)			
Less: Statutory and Other										
Rewards Rebate	\$4,927	\$4,865	\$62	1.3%	\$3,955	\$972	24.6%			
Stakes & Purses	105,423	106,442	(1,020)	(1.0%)	106,633	(1,210)	(1.1%)			
Import Host Fees	16,445	16,686	(241)	(1.4%)	16,460	(15)	(0.1%)			
Other statutory payments	17,018	16,888	130	0.8%	16,465	553	3.4%			
Total Statutory and Other	\$143,813	\$144,882	(\$1,069)	(0.7%)	\$143,513	\$300	0.2%			
Net wagering revenue	\$123,686	\$126,799	(\$3,114)	(2.5%)	\$127,934	(\$4,249)	(3.3%)			
Other revenue, net	\$18,236	\$18,025	\$212	1.2%	\$17,782	\$454	2.6%			
On-track racing related revenue, net	17,855	17,626	228	1.3%	18,106	(252)	(1.4%)			
Total Other and OTRR Revenue	\$36,091	\$35,651	\$440	1.2%	\$35,888	\$203	0.6%			
Net Revenue From Racing Operations	\$159,776	\$162,451	(\$2,674)	(1.6%)	\$163,823	(\$4,046)	(2.5%)			

OPERATING EXPENSES

Labor Expense	\$92,373	\$88,121	\$4,252	4.8%	\$87,056	\$5,317	6.1%			
Operating Supplies	2,174	2,449	(274)	(11.2%)	2,818	(644)	(22.8%)			
Utilities	6,647	6,552	94	1.4%	6,829	(182)	(2.7%)			
Temporary Help	3,747	3,510	238	6.8%	3,859	(112)	(2.9%)			
Outside Services	8,822	8,373	449	5.4%	7,175	1,647	23.0%			
Telephone & Communications	5,639	7,211	(1,572)	(21.8%)	7,368	(1,729)	(23.5%)			
Professional Fees:										
Legal Fees	1,720	1,670	50	3.0%	1,670	50	3.0%			
Audit/Tax	786	858	(71)	(8.3%)	819	(33)	(4.0%)			
Consulting	966	1,030	(65)	(6.3%)	814	152	18.6%			
TOTE Expense	2,203	2,163	39	1.8%	2,124	79	3.7%			
Rentals & Leases	2,078	2,334	(255)	(10.9%)	2,665	(586)	(22.0%)			
Repairs & Maintenance	6,859	7,648	(789)	(10.3%)	9,299	(2,440)	(26.2%)			
Insurance	8,414	7,716	698	9.0%	8,344	70	0.8%			
Marketing & Advertising	6,295	5,626	669	11.9%	5,360	934	17.4%			
Bad Debt	250	4,108	(3,858)	(93.9%)	5,383	(5,133)	(95.4%)			
Other Expenses	8,699	8,549	150	1.8%	8,671	28	0.3%			
Total Operating Expenses	\$157,672	\$157,918	(\$246)	(0.2%)	\$160,255	(\$2,582)	(1.6%)			
Operating Income From Racing Operations	\$2,104	\$4,532	(\$2,428)	(53.6%)	\$3,568	(\$1,464)	(41.0%)			

**NYRA HANDLE AND OTHER RELEVANT STATISTICS
2017 BUDGET COMPARED TO 2016 FORECAST AND 2015 ACTUAL**

HANDLE

Live On-Track, Export, Import

(in thousands)	BUDGET	FORECAST	ACTUAL	5 YEAR	% BUD 2017	% BUD 2017	% BUD 2017
	2017	2016	2015	AVERAGE	vs FORE 2016	vs ACT 2015	vs 5 YEAR AVG.
<u>AQUEDUCT WINTER</u>							
Race dates	57	63	60	68	-10%	-5%	-16%
Live	\$46,152	\$51,647	\$47,965	\$57,638	-11%	-4%	-20%
Export	\$326,130	\$364,823	\$306,352	\$375,551	-11%	6%	-13%
Import	\$99,272	\$102,055	\$101,868	\$102,044	-3%	-3%	-3%
Total Handle	\$471,555	\$518,526	\$456,186	\$535,233	-9%	3%	-12%
<u>BELMONT SPRING</u>							
Race dates	54	54	59	56	0%	-8%	-4%
Live	\$82,655	\$82,621	\$88,293	\$84,335	0%	-6%	-2%
Export	\$539,703	\$537,991	\$559,447	\$517,472	0%	-4%	4%
Import	\$75,916	\$74,530	\$71,790	\$70,259	2%	6%	8%
Total Handle	\$698,275	\$695,143	\$719,531	\$672,065	0%	-3%	4%
<u>SARATOGA</u>							
Race dates	40	40	40	40	0%	0%	0%
Live	\$149,069	\$151,842	\$157,648	\$151,594	-2%	-5%	-2%
Export	\$470,948	\$501,394	\$498,474	\$461,374	-6%	-6%	2%
Import	\$43,245	\$42,465	\$41,492	\$40,510	2%	4%	7%
Total Handle	\$663,260	\$695,699	\$697,612	\$653,478	-5%	-5%	1%
<u>BELMONT FALL</u>							
Race dates	36	38	38	37	-5%	-5%	-3%
Live	\$41,442	\$40,214	\$39,989	\$41,998	3%	4%	-1%
Export	\$253,658	\$256,301	\$281,061	\$266,742	-1%	-10%	-5%
Import	\$41,296	\$41,174	\$44,058	\$39,833	0%	-6%	4%
Total Handle	\$336,397	\$337,689	\$365,108	\$348,573	0%	-8%	-3%
<u>AQUEDUCT FALL</u>							
Race dates	39	35	40	39	11%	-3%	0%
Live	\$34,188	\$32,690	\$32,681	\$33,527	5%	5%	2%
Export	\$213,033	\$199,722	\$231,129	\$217,721	7%	-8%	-2%
Import	\$48,592	\$47,112	\$40,496	\$46,854	3%	20%	4%
Total Handle	\$295,813	\$279,524	\$304,306	\$298,103	6%	-3%	-1%

<u>TOTAL</u>							
Race dates	226	230	237	240	-2%	-5%	-6%
Live	\$353,507	\$359,013	\$366,576	\$369,092	-2%	-4%	-4%
Export	\$1,803,473	\$1,860,231	\$1,876,464	\$1,838,861	-3%	-4%	-2%
Import	\$308,320	\$307,335	\$299,704	\$299,499	0%	3%	3%
Total Handle	\$2,465,300	\$2,526,580	\$2,542,743	\$2,507,452	-2%	-3%	-2%

Note: Race dates reflect the total amount of days budgeted and/or forecasted and not the number of days scheduled.

HANDLE ANALYSIS

The 2017 handle budget considered variables that have an impact on handle by platform for each of the five meets that NYRA will run; including weather, historical platform trends, industry trends, the racing calendar and field size. Each meet was analyzed for internal and external variables and budgeted independently of the other meets. Handle totals were also compared to the prior five-year average to ensure reasonable totals informed by observable trends.

Total handle for 2017 is intentionally budgeted conservatively. Total all-source 2017 handle of \$2.465 billion is budgeted to decrease approximately 2% compared last year and to the prior five-year average driven by a conservative approach, lower NYS OTB handle, and strategic changes to the scheduled race days in an effort to maintain field size during the Aqueduct Winter and Belmont Fall meets where times of strain on the horse population are at its greatest. With this strategy field size is budgeted to remain essentially flat compared to 2016. Highlights for each meet include the following:

Aqueduct Winter Meet: Handle is budgeted to decrease 12%, or \$63.7 million compared to the prior five-year average, and is 9% or \$47.0 million less than 2016 actual results. Factors driving the lower budgeted handle include the assumption of more severe weather and fewer scheduled race days in an effort to maintain field size.

Belmont Spring Meet: As in prior years, we are not assuming a Triple Crown Belmont Stakes in 2017. Handle has been budgeted to be flat to 2016 actual performance, at \$698.3 million. Compared to the prior five-year average, NYRA is expecting to achieve a \$26.2 million or 4.0% increase due to improving results from both the Stars & Stripes and Belmont Stakes Racing Festivals in recent years.

Saratoga Meet: NYRA is being conservative by not assuming the level of results experienced in 2015 or 2016. The budget assumes a decrease of 5% or \$32.4 million in handle compared to 2016. This conservative approach is consistent with the approach taken in prior years due to the potential significant impact bad weather can have on handle (e.g., in 2016, half of a Saturday card was cancelled due to severe thunderstorms impacting handle by \$17.3 million). However, we are still budgeting an increase of 1% or \$9.8 million over the prior five-year average.

Belmont Fall Meet: We are budgeting handle of \$336.4 million, a reduction of \$1.3 million compared to actual 2016 performance, driven by two less race days offset by an increase in daily average handle as we do not expect the level of unfavorable weather experienced in 2016 which impacted all three of the enhanced Saturday programs.

Aqueduct Fall Meet: Based on performance to date, handle is budgeted to increase 6%, or \$16.3 million compared to the 2016 forecast based on four more race days, and will decrease 1% or \$2.3 million compared to the prior five-year average.

REVENUE

RACING RELATED REVENUE

(in thousands)

	2017	2016	Change		2015	Change	
	BUDGET	FORECAST	\$	%	ACTUAL	\$	%
On-track	\$132,159	\$132,377	(\$218)	(0.2%)	\$132,598	(\$439)	(0.3%)
Export revenue	112,196	115,154	(2,958)	(2.6%)	114,075	(1,879)	(1.6%)
New York OTB	23,144	24,151	(1,007)	(4.2%)	24,775	(1,631)	(6.6%)
Total gross pari-mutuel revenue	\$267,498	\$271,682	(\$4,183)	(1.5%)	\$271,447	(\$3,949)	(1.5%)
Less: Statutory and Other							
Rewards Rebate	\$4,927	\$4,865	\$62	1.3%	\$3,955	\$972	24.6%
Stakes & Purses	105,423	106,442	(1,020)	(1.0%)	106,633	(1,210)	(1.1%)
Import Host Fees	16,445	16,686	(241)	(1.4%)	16,460	(15)	(0.1%)
Other statutory payments	17,018	16,888	130	0.8%	16,465	553	3.4%
Total Statutory and Other	\$143,813	\$144,882	(\$1,069)	(0.7%)	\$143,513	\$300	0.2%
Net wagering revenue	\$123,686	\$126,799	(\$3,114)	(2.5%)	\$127,934	(\$4,249)	(3.3%)
Other revenue, net	\$18,236	\$18,025	\$212	1.2%	\$17,782	\$454	2.6%
On-track racing related revenue, net	17,855	17,626	228	1.3%	18,106	(252)	(1.4%)
Total Other and OTRR Revenue	\$36,091	\$35,651	\$440	1.2%	\$35,888	\$203	0.6%
Net Revenue From Racing Operations	\$159,776	\$162,451	(\$2,674)	(1.6%)	\$163,823	(\$4,046)	(2.5%)

- **On-track Wagering Revenue:** On-track Wagering Revenue is budgeted to decrease consistent with the budgeted decrease in handle.
- **Export Revenue:** Export Revenue is budgeted to decrease consistent with handle performance assumed in the budget offset in part by an expected increase in the effective host fee rate charged for locations accepting NYRA's simulcast signal.
- **New York OTB Revenue:** New York OTB revenue is anticipated to continue the downward trend experienced in recent years. NYRA is expecting a decrease of \$1.0 million or 4.2% compared to 2016 Forecast and \$1.6 million or 6.6% compared to 2015.
- **Stakes & Purses - Pari-mutuel:** Purse expense on pari-mutuel wagering is budgeted to decrease \$1.0 million or 1.0% compared to 2016 Forecast due to the budgeted decreases in on-track, export and NYS OTB revenues.
- **Rewards Rebate:** The Rewards rebate provided to NYRA Bets customers is budgeted to increase 1.3% compared to 2016 Forecast assuming acquisition growth resulting from increased promotions expenses and enhancements to the internet & mobile platforms.
- **Import Host Fees:** Import host fees are fees paid to other tracks for wagers on non-NYRA races. The expense is budgeted to decrease \$241,000 or 1.4% compared to 2016 Forecast.
- **Other Statutory Payments:** Other statutory payments including pari-mutuel taxes and other regulatory fees are budgeted to increase 0.8% compared to the 2016 Forecast, impacted by the increase in the NYS Gaming Commission regulatory fee from 0.5% to 0.6% which went into effect April 1, 2016.

- **Other Revenue:** Other Revenue is budgeted to increase 1.2% compared to 2016 forecast due to increases in sponsorship revenue from new NYRA Live! broadcast sponsorships and a contractual increase in NBC content rights fees for Belmont Stakes.
- **On-Track Racing Related Revenue:** On-Track Racing Related Revenue is budgeted to increase 1.3% compared to the 2016 Forecast, due to selective price increases for Belmont Stakes Racing Festival.

OPERATING EXPENSES

OPERATING EXPENSES

(in thousands)

	2017		2016		Change		2015		Change	
	BUDGET	FORECAST	\$	%	ACTUAL	\$	%	ACTUAL	\$	%
Salaries and Wages	\$67,414	\$64,436	\$2,977	4.6%	\$63,981	\$3,432	5.4%			
Benefits & Payroll Taxes	24,959	23,685	1,275	5.4%	23,075	1,885	8.2%			
Travel	2,822	2,726	96	3.5%	2,617	205	7.9%			
Operating Supplies	2,174	2,449	(274)	(11.2%)	2,818	(644)	(22.8%)			
Utilities	6,647	6,552	94	1.4%	6,829	(182)	(2.7%)			
Temporary Help	3,747	3,510	238	6.8%	3,859	(112)	(2.9%)			
Outside Services	8,822	8,373	450	5.4%	7,175	1,647	23.0%			
Telephone & Communications	5,639	7,211	(1,572)	(21.8%)	7,368	(1,729)	(23.5%)			
Professional Fees:										
Legal Fees	1,720	1,670	50	3.0%	1,670	50	3.0%			
Consulting	1,752	1,888	(136)	(7.2%)	1,633	119	7.3%			
TOTE Expense	2,203	2,163	39	1.8%	2,124	79	3.7%			
Rentals & Leases	2,078	2,334	(255)	(10.9%)	2,665	(586)	(22.0%)			
Repairs & Maintenance	6,859	7,648	(789)	(10.3%)	9,299	(2,440)	(26.2%)			
Insurance	8,414	7,716	698	9.0%	8,344	70	0.8%			
Marketing & Advertising	6,295	5,626	669	11.9%	5,360	934	17.4%			
Charitable Contributions	1,329	1,332	(3)	(0.2%)	1,364	(35)	(2.5%)			
Bad Debt Expense	250	4,108	(3,858)	(93.9%)	5,383	(5,133)	(95.4%)			
Other Expenses	4,548	4,491	56	1.3%	4,690	(143)	(3.0%)			
Total Operating Expenses	\$157,672	\$157,918	(\$246)	(0.2%)	\$160,255	(\$2,582)	(1.6%)			

Significant Variances to 2016 Forecast

- **Salaries and Wages** – Salaries and Wages are budgeted to increase \$3.0 million or 4.6% to \$67.4 million due to increases in existing employee wages (including increases mandated by collective bargaining agreements) as well as additional headcount to support strategic objectives, including the enhanced NYRA Bets platform, cyber security, equine investigators, fire safety in Saratoga and the new venue technology initiative.
- **Benefits & Payroll Taxes** – Benefits & Payroll Taxes are budgeted to increase \$1.3 million or 5.4% to \$25.0 million due to contractual increases in union benefit costs, and rising costs of non-union employee benefits partially offset by higher non-union employee contribution rates. Payroll taxes are expected to increase \$347,000 as a function of higher headcount and wages.
- **Outside Services** – Outside Services are budgeted to increase \$450,000 or 5.4% due to new costs associated with the Saratoga and Belmont NYRA Live! broadcasts, horse transportation expense, and costs related to increased video streaming, offset by lower expected recruiting expense.

- **Telephone and Communications** – Telephone and Communications expense is budgeted to decrease \$1.6 million or 21.8% due to a decrease in phone wagering costs associated with lower expected phone handle, and savings in toll free telephone costs related to a change in vendors, partially offset by increases in video streaming due to increased viewership, hosting fees attributable to off-siting network servers as part of a new disaster recovery strategy and ADW internet platform fees associated with higher internet handle.
- **Repairs and Maintenance** – Repairs and Maintenance expense is budgeted to decrease \$789,000 or 10.3% due to a reduction in R&M related materials and due to realized savings from cost-saving capital investments, partially offset by an increase in service contracts related to new venue technology.
- **Insurance** – Insurance is budgeted to increase \$698,000 or 9.0% due to budgeted increases of 3%-5% in most insurance lines, as well as higher workers compensation expense due to one-time retro premium credits received in 2016.
- **Marketing** – Marketing expenses are budgeted to increase \$669,000 or 11.9% due to increased digital advertising, events related expense related to NYC bar & restaurant strategy planned for the Triple Crown and Saratoga summer meet, and additional promotions related to NYRA Bets.
- **Bad Debt** – Bad debt expense is budgeted to decrease \$3.9 million or 93.9% to \$250,000 due to not budgeting for Nassau OTB bad debt as NYRA has been told by State government officials that we will receive statutorily required distributions from Nassau OTB (currently not being received) based on Nassau OTB's recently approved agreement with Resorts World.

VLT REVENUE

VLT REVENUE

(in thousands)

	2017	2016	Change		2015	Change	
	BUDGET	FORECAST	\$	%	ACTUAL	\$	%
Gross Based on WPM	\$821,165	\$848,827	(\$27,662)	(3.3%)	\$831,223	(\$10,058)	(1.2%)
Stakes and Purses Funding	60,971	63,025	(2,054)	(3.3%)	61,718	(747)	(1.2%)
Capital Funding	32,847	33,953	(1,106)	(3.3%)	33,249	(402)	(1.2%)
Operations Funding	24,635	25,465	(830)	(3.3%)	24,937	(302)	(1.2%)
Gross VLT Revenue	\$118,453	\$122,443	(\$3,990)	(3.3%)	\$119,904	(\$1,451)	(1.2%)
less: Stakes and Purses Funding	\$60,057	\$62,078	(\$2,021)	(3.3%)	\$60,794	(\$737)	(1.2%)
less: VLT - Jockey Health Insurance	915	947	(\$33)	(3.5%)	924	(\$9)	(1.0%)
Net VLT Revenue	\$57,482	\$59,418	(\$1,936)	(3.3%)	\$58,186	(\$704)	(1.2%)

- 2017 VLT Revenue is projected to be \$118.5 million, with \$61.0 million for stakes and purses, \$32.8 million for capital investments and \$24.6 million for operations. Projected VLT Revenue is based on 5,000 machines with a \$450 win per machine daily average.

NON-OPERATING EXPENSES

NYRA's non-operating expenses consist of employee legacy costs (pension and other post-retirement employee benefits "OPEB"), depreciation and income tax expense. The following table is a summary of these expenses budgeted for 2017 compared to the 2016 forecast and 2015:

NON OPERATING EXPENSES

(in thousands)

	2017	2016	Change		2015	Change	
	BUDGET	FORECAST	\$	%	ACTUAL	\$	%
Retiree Benefits	\$6,419	\$6,139	\$280	4.6%	\$5,963	\$457	7.7%
Pension	2,466	2,466	0	0.0%	1,367	1,099	80.4%
Interest Expense	0	2	(2)	(100.0%)	8	(8)	(100.0%)
Income Tax Expense	13,100	15,810	(2,710)	(17.1%)	17,409	(4,309)	(24.8%)
Depreciation	13,200	10,022	3,178	31.7%	7,697	5,503	71.5%
Total Non-Operating Expenses	\$35,186	\$34,439	\$747	2.2%	\$32,444	\$2,741	8.4%

- **Retiree Benefits** - Retiree Benefits are budgeted to increase \$280,000 compared to 2016 Forecast and \$457,000 compared to 2015 based on actuarial projections.
- **Pension** – Pension expense is budgeted to be \$2.5 million, consistent with the 2016 Forecast. The increase compared to 2015 is driven by a 0.25% decrease in discount rate.
- **Income Tax Expense** – Income Tax Expense is budgeted at an effective tax rate of 35% consistent with 2016 and 2015. The decrease compared to 2016 forecast and 2015 is a function of the budgeted decrease in pre-tax net income.
- **Depreciation** – Depreciation expense is budgeted to increase \$3.2 million or 31.7% compared to 2016 forecast and \$5.5 million or 71.5% compared to 2015 as new assets are placed into service due to increased capital spending.

2017 CAPITAL SPENDING BUDGET

For 2017, NYRA plans to invest \$27.5 million in new capital improvements in addition to \$8.3 million in 2016 budgeted carryover projects for a total of \$35.9 million expected capital spend. These projects will continue to enhance the guest experience, upgrade conditions within the barn area for horsemen, upgrade NYRA's technology infrastructure and increase NYRA's operational efficiency.

2017 CAPITAL SPENDING BUDGET

(in thousands)	2017 Budget
AQUEDUCT	
Guest Area Improvements	\$175
Barn Area Construction/Upgrades	100
Track and Infield Upgrades	150
	425
BELMONT	
Guest Area Improvements	690
Barn Area Construction/Upgrades	3,000
Track and Infield Upgrades	750
Other Frontside Improvements	4,725
	9,165
SARATOGA	
Guest Area Improvements	5,170
Barn Area Construction/Upgrades	550
Dorms	500
Track and Infield Upgrades	400
Other Frontside Improvements	70
Food & Beverage	100
	6,790
NYRA TV	1,900
TECHNOLOGY	2,875
ADW SERVICES	1,600
FLEET EQUIPMENT	3,721
OTHER	1,042
Total Proposed 2017 Capital Projects	\$27,518
Total Projected 2016 Carryover	\$8,335
Total Projected Capital Expenditures	\$35,853

Aqueduct

Guest Area Improvements

- There have been substantial improvements made over the past few years in the clubhouse at Aqueduct. Projects planned for 2017 include improvements related to fire safety, upgrading signage throughout the building, and creating a unified look for the facility.

Barn Area Construction/Upgrades

- Budgeted improvements include upgrades to the barn area to enhance the working and living conditions of the backstretch workers and work to ensure compliance with federal CAFO regulations.

Track and Infield Upgrades

- 2017 plans include a new track cushion to optimize the safety of horses and jockeys.

Belmont

Guest Area Improvements

- In 2017, NYRA will invest in several projects that will further improve the guest experience. Upgrades will include heating and cooling enhancements throughout the facility to improve guest experience year-round, and the continuation of a multi-year project to upgrade the entire facility to meet ADA and fire marshal compliance.

Barn Area Construction/Upgrades

- Over the past three years, improvements to the barn area have been increasing at Belmont, including the recent expansion of select barns to provide additional stall space. NYRA plans to continue to replace barn roofs with long lasting metal and remove asbestos, install flowable fill concrete and replace wooden catwalks with concrete in the front of each stall to reduce the maintenance involved in barn upkeep and increase the safety for the horses. Rubber and plastic wall guards are being installed in each stall to reduce the amount of wear and tear on the barn walls. NYRA will continue to upgrade the existing dorms and cottages making them more energy efficient and safer living conditions for the backstretch workers.

Track and Infield Upgrades

- Plans for the Belmont dirt track, turf courses and training track include continuation of two projects from last year; the track cushion replacement on the main track and the installation of irrigation pump controls for the turf courses. There are also plans to invest in a safety rail.

Other Frontside Improvements

- Other capital improvement plans include sprinkler replacement for better fire prevention, professional services for development of Belmont Park, and perimeter fencing.

Saratoga

Guest Area Improvements

- Improvements to optimize the guest experience at Saratoga include design work for the “At the Rail” pavilion, installation of a new elevator, restroom upgrades, construction of junior

boxes, a new copper roof, upgrades to the fire alarm system and ADA compliance upgrades. As part of the long-term redevelopment plan, construction of a permanent “At the Rail” pavilion near the clubhouse turn will be an improvement over the current tents and temporary suites. The junior boxes, which will be constructed on the east end of the grandstand, will provide a new revenue generating area and significantly upgrade the look and use of an underutilized seating area.

Barn Area/Dorm Construction/Upgrades

- Plans include continuing to renovate dormitories and barns as well as upgrading the electrical service which will improve the quality of life for the backstretch residents. NYRA will completely refurbish ten additional dormitories, and the barn upgrades will duplicate the stall flooring projects that have worked well at Belmont, including rubber matting in the stalls.

Track and Infield Upgrades

- NYRA plans to continue to upgrade the irrigation of the Mellon and Inner Turf courses. The improved irrigation of these two turf courses will extend their life and improve the condition of the racing surface which will reduce labor costs and mitigate the usage of City water.

Other

- Other plans include a new roof for the saddling shed, tables and chairs for the dining areas, and minor office improvements.

NYRA TV

- In 2017, NYRA TV has a number of new initiatives planned that will greatly enhance the guest experience while further widening the technology gap between NYRA and its industry competitors. Plans include launching a state-of-the-art video application that will allow users to watch our races from a variety of angles and on-demand short form digital content. NYRA also plans to invest in new camera technology, including a replacement of older robotic camera equipment and new cameras such as a cutting edge 360 degree camera that could be installed in the paddock to provide unlimited viewing angles.

Technology

- Technology plans include further investment in a Customer Relationship Management (CRM) platform creating a centralized customer information database, improving network infrastructure to better support all functions of the company securely and efficiently, and software to increase efficiencies through automation and centralization of data collection.

ADW Services

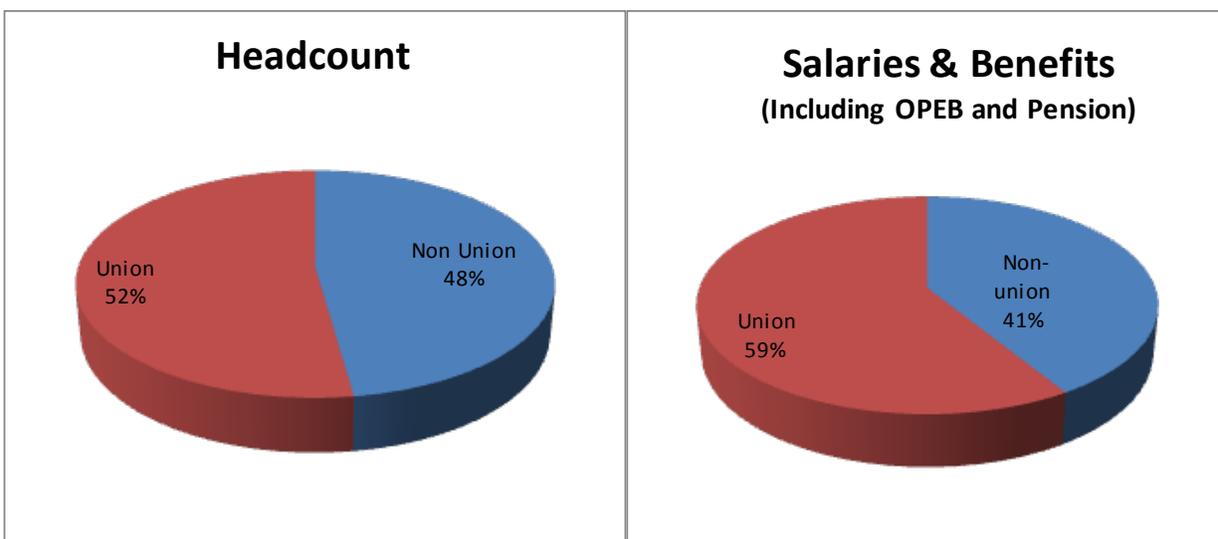
- NYRA ADW Services plans include continuing to develop and enhance funding integrations to our wagering platform, and investments to offer the best possible mobile wagering experience to our guests.

Fleet Equipment

- Plans include purchasing used vehicles to replace older vehicles that require maintenance, a “vac-all” machine to clean out wash pads and drains, a four wheel drive ambulance to provide better safety for the jockeys and exercise riders, and purchasing the starting gates used at all three racetracks to reduce rental expenses.

EXHIBIT 1

2017 BREAKDOWN OF LABOR EXPENSE



	2017		
	<u>Non-union</u>	<u>Union</u>	<u>Total</u>
Salaries & Taxes	\$36,780,000	\$36,112,000	\$72,892,000
Active employee benefits	\$4,867,000	\$14,659,000	\$19,526,000
Post-retirement benefits		\$6,138,928	\$6,138,928
Pension Expense		\$2,466,205	\$2,466,205
Total compensation	\$41,647,000	\$59,376,133	\$101,023,133
% of Total	41%	59%	100%
# average active employees	660	721	1,381
% of Total	48%	52%	100%
2017 Cost per active employee	\$63,102	\$82,352	\$73,152

5



FOB PERFORMANCE STANDARDS REPORTING

2015

Performance Standards



1. **Race Dates**: New NYRA shall apply to the Racing and Wagering Board to run racing a minimum of 246 total race days each year, including 120 at Aqueduct, 90 at Belmont and 36 at Saratoga.
2. **New York Bred Races**: New NYRA shall run a minimum of six hundred (600) New York bred races each year.
3. **Stalls**: New NYRA shall fill stalls at each of the Racetracks in a fair and equitable manner.
4. **Jockey and Equine Safety**: New NYRA shall consider the advantages and disadvantages of installing synthetic surfaces at the Racetracks and training facilities. New NYRA shall also consider other steps in consultation with industry experts to ensure jockey and equine safety.
5. **CAFO**: New NYRA shall comply with the requirements of State Concentrated Animal Feeding Operation nutrient management plan and shall remediate and notify the FOB of any violation of such plan as soon as practicable.

Performance Standards



6. **Backstretch**: New NYRA shall develop and implement a plan to improve the condition of the housing and working environment for backstretch workers.
7. **Saratoga Training**: New NYRA shall maintain and operate the existing Saratoga training facility during the period from at least April 15 through November 1.
8. **Handle and Attendance**: New NYRA shall embrace objectives to encourage growth in on- and off-track handle, shall use its reasonable best efforts to increase average daily handle at each of the Racetracks and shall use its reasonable best efforts to maximize attendance at each of the Racetracks.
9. **Purses**: New NYRA shall not commingle horsemen's bookkeeper funds with its other funds.

Performance Standards



10. **Expenses**: New NYRA shall operate its racing and wagering business so as to maintain (i) operating expense levels, (ii) levels of capital expenditures and the items on which such capital expenditures are spent and (iii) executive compensation at commercially reasonable levels.
11. **Community**: New NYRA shall use its reasonable best efforts to maintain its tracks and facilities such that their physical appearance and conditions do not detract from the community.



11. Conclusions

GENERAL CONCLUSION: NYRA has complied with all of the Performance Standards in 2015, exceeding requirements in some categories. Below are some examples.

Race Dates

- In 2015, NYRA applied to the Gaming Commission to run 257 races, 11 more than the minimum number of races at Belmont and Saratoga specified in the Franchise Agreement.

New York Bred Races

- Not only has NYRA complied with the requirements of this Performance Standard in 2015, but it has substantially exceeded the minimum requirements by running 693 New York bred races and, in doing so, has helped expand the New York breeding program