COMMENCEMENT OF ANNUAL MEETING

VIRGINIA RACING COMMISSION

July 29, 2015

PATRICK HENRY BUILDING
EAST READING ROOM
1111 EAST BROAD STREET
RICHMOND, VA 23219

Commencing at 9:58 a.m.

COMMISSION MEMBERS:
J. Sargeant Reynolds, Jr., Chairman
D.G. Van Clief, Jr., Vice Chairman
Carol G. Dawson
I. Clinton Miller
Charles W. Steger, PhD

COMMISSION STAFF:
Bernard J. Hettel, Executive Secretary
C. Richard Harden, DVM, Equine Medical Director
David S. Lermond, Deputy Executive Secretary
Courtney C. Reid, Program Support Technician
Kimberly C. Mackey, Office Administrator

OFFICE OF AGRICULTURE AND FORESTRY:
Sam Towell, Deputy Secretary of Agriculture and Forestry

ATTORNEY GENERAL'S OFFICE:
Joshua Laws, Esquire
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MR. REYNOLDS: I will call the Virginia Racing Commission meeting for July 29th, 2015 to order. The first thing I'd like to do before we move for approval of the minutes is to set our next meeting.

I think last time we talked about having regularly scheduled monthly meetings, and I was thinking like the second Wednesday of every month. I don't know if that's what we decided on or not, but that's my thinking for now.

In setting the next meeting, I would ask my commissioners are you all available, say either Wednesday September 2nd or Wednesday September 9th?

MR. VAN CLIEF: The 9th.

MR. MILLER: The 9th.

MR. REYNOLDS: Commissioner Steger?

MR. STEGER: Verifying right now.

MS. DAWSON: I'm available both days.

MR. STEGER: Yes. That looks fine.

MR. REYNOLDS: Is that an issue with the stakeholders?

MR. PETRAMALO: No.

MR. REYNOLDS: Okay. Our next meeting will be at ten o'clock on September 9th, and we will let you know where that will be held. Okay. Thank you.
Also, what I'm going to do today, is when we get to places on the agenda where the Commission needs to take some sort of action, I'm going to allow the public to make comments at that time on that particular issue, if they so choose.

Whether they are in favor of it or against it or just want to make a comment, I'm going to allow the public to make comments at those times. They are still subject to the five-minute limit, so if I forget to do that, please, somebody remind me, but I think that's very appropriate. We will do that, you know, ongoing.

Has everybody had a chance to look at the minutes? I know that I have one that I saw, and that is on the second page in the middle, where it says the Commission unanimously approved a request by the Virginia Thoroughbred Association for the distribution of Breeders' Fund funding for purses, et cetera, et cetera.

The Commission did not unanimously approve it; there was one abstention, so I would recommend approval -- well, I'll wait for other comments, but I recommend that we strike unanimously and just say the Commission approved the request by the Virginia Thoroughbred Association.
Are there any other additions or corrections to the minutes?

NOTE: There was no response.

MR. REYNOLDS: Hearing none, do I hear a motion to approve the minutes for the July 1st, 2015 commission meeting with my amendment?

MS. DAWSON: So moved.

MR. REYNOLDS: Do I hear a second?

MR. STEGER: Second.

THE COURT: All those in favor, say aye.

NOTE: The Commission votes aye.

MR. REYNOLDS: All those opposed?

NOTE: There is no response.

MR. REYNOLDS: The minutes are approved as amended.

Next on the agenda is approval of the September 20th, 2015 race day at Great Meadow. I apologize. I'd also like for the record to reflect that all the commissioners are present. Mr. Lermond reminded me to do that and I forgot, so I apologize. Thank you, Commissioner Miller.

Is Dr. Allison here? Would you like to talk about the meet coming up?

DR. ALLISON: Yes. Mr. Chairman, we seek approval of our race date. Great Meadow is in good
shape for six days of flat racing. The community 
is very excited about it. The SPCA is going to be 
our charity of choice that day. They look forward 
to this opportunity to raise a lot of money, 
hopefully.

MR. REYNOLDS: Okay. Thank you. Are there any 
comments from the -- Mr. Petramalo?

MR. PETRAMALO: Yes. Mr. Chairman, just to get 
all the paperwork in order, we will submit three 
contracts to you. If you don't already have it, 
there is the lease between the Equine Alliance and 
Great Meadow for the course, and then there is the 
contract between the Equine Alliance and the Gold 
Cup Association, because the Gold Cup is going to 
be the operator to run the races, and then there's 
the horsemen's contract between the Gold Cup and 
the Virginia HBPA.

So those are the three pieces of paper we need 
officially to go forward with the races, and we 
will submit them as soon as they're signed, and 
hopefully, we can take or we can get approval at 
the September 9th meeting.

MR. REYNOLDS: Okay. So that includes the 
lease agreement?

MR. PETRAMALO: Yes.
MR. REYNOLDS: My next question is do we need to take action on that today?

MR. PETRAMALO: Do you have that before you?

MR. REYNOLDS: We have just the lease agreement between the Great Meadow Foundation and the Virginia Equine Alliance.

MR. PETRAMALO: Right. Well, let me suggest that you go forward and approve that, if you're so inclined, and then we'll take up the other two contracts at the September 9 meeting.

MR. REYNOLDS: Okay. All right. Do the commissioners have any comments on -- I guess we have two approvals; one is to approve the race day. I want to read the letter into the record.

The Virginia Gold Cup Association requests that the Virginia Racing Commission grant a license for one day of flat racing, six races at the Great Meadow race course located in The Plains, Virginia, on September 20th, 2015. Virginia Equine Alliance will fund the races and the Virginia Horsemen's Benevolent and Protective Association will provide the purses. The Fauquier SPCA will be the designated charity.

Are there any comments before I seek a motion to approve the race day?
NOTE: There is no response.

MR. REYNOLDS: Maybe I'll make the motion. I'd like to make a motion that Virginia Racing Commission approve and grant a license for one day of flat racing at Great Meadow race course, located at The Plains, Virginia, on September 20th, 2015. Do I hear a second?

MS. DAWSON: Question.

MR. REYNOLDS: Yes.

MS. DAWSON: Isn't the license already in existence?

MR. PETRAMALO: Yes.

MR. HETTEL: This is the approval of a day.

MS. DAWSON: So we're approving the one day?

MR. HETTEL: Yes.

MR. REYNOLDS: Well, the Gold Cup is requesting the Racing Commission grant a license for one day of flat racing.

MR. HETTEL: It's poorly worded.

MR. REYNOLDS: So should I amend my motion?

MR. HETTEL: I would just say let's approve a race day for September 20th, based upon the application previously submitted by Gold Cup. They have 14. This will be the third day of the 14.

MR. REYNOLDS: I'd like to amend my motion to
state that the Virginia Racing Commission approve one day of flat racing at Great Meadow race course, located in The Plains, Virginia, on September 20\textsuperscript{th}, 2015.

MR. VAN CLIEF: I'll second that motion.

MR. REYNOLDS: All those in favor, say aye.

NOTE: The Commission votes aye.

MR. REYNOLDS: All those against, say no.

NOTE: There is no response.

MR. REYNOLDS: The motion carries.

Of course I didn't ask the public if they had any comments about that, but do the public have any comments? I won't mess it up the next time. Okay.

NOTE: There is no response.

MR. REYNOLDS: Now, have all the commissioners had a chance to read through the lease agreement between the Great Meadow Foundation and the Virginia Equine Alliance, and if so, do you all have any questions or comments?

NOTE: There is no response.

MR. REYNOLDS: Mr. Petramalo, you were asking us to take action on this, or would you rather wait and do it all together at the next meeting?

MR. PETRAMALO: Whatever suits the Commission, but I would suggest as long as it is before you at
this point, you go ahead and approve it.

MR. REYNOLDS: I have reviewed it and I don't have any problems with it whatsoever, but I leave that up to my fellow commissioners, if they're comfortable.

MR. STEGER: I don't have any problems.

MS. DAWSON: I think it's pretty straightforward.

MR. VAN CLIEF: I have a procedural question, Mr. Chairman. Does the Commission actually need to approve the terms of this contract or others like it? Seems to me we're approving budgets, approving expenditures as per the current legislation. We're approving race days as per the norm, but is it our purview to actually approve terms of contracts between the various parties?

MR. PETRAMALO: My opinion with regard to the VEA, I would submit that as long as what the VEA is proposing to spend under the contract, as long as it is within a budget item that you approve, I would say fine, you don't need to approve it, but out of an abundance of caution, we put the condition in there.

But let me quickly add that it's slightly different when you're talking about the agreement
between subsequent agreement between the Gold Cup and the Virginia HBPA, because that provides for prizes and purses, and by statute, you have to approve that contract.

MR. VAN CLIEF: Does Counsel agree with that?

MR. LAWS: I need to look it up and do some research. I don't know off the top of my head.

MR. REYNOLDS: Commissioner Miller.

MR. MILLER: Well, out of an abundance of caution, I suggest that we do expressly vote to approve this lease, because it provides for an expenditure by the Virginia Equine Association, and we have not approved their budget, as yet anyway, and the budget is prospectus and anticipated expenses, and this is an actual expense that's there in black and white. So if we agree that this expenditure is appropriate, we vote to either approve it or not approve it now by voting up or down.

MR. REYNOLDS: Would it make sense to defer this until after we've talked about the budget? Again, I don't have a problem with the expenditure or this lease.

MR. MILLER: I would suggest let's go ahead and the motion has been made to approve the lease and
it sets forth the exact amount there that's being paid for the lease agreement, and so I would suggest we go ahead and vote on that, and if we don't approve the budget of the VEA, then --

MR. REYNOLDS: It's a moot point.

MR. MILLER: -- it would be a moot point.

MR. REYNOLDS: Yes.

MR. MILLER: I don't know. I don't know why everything always gets so complicated.

MR. PETRAMALO: It's Virginia.

MR. MILLER: Maybe let's defer it until we discuss their budget.

MR. REYNOLDS: Okay. We will defer this item until we discuss the budget.

Speaking of which, the review and approval of the Virginia Equine Alliance budget is next on our agenda. I would ask that the Virginia Equine Alliance representative get up, and I don't know the best way to do that, but maybe take us through line by line of your budget, explain, you know, briefly where you can, and in more detail where, you know, we may need more explanation as to what the expenditures are.

I'll say that Vice Chairman Van Clief and I did spend two hours with the VEA the other week to go
over this budget in great detail, and then I know other commissioners may have talked to you all as well, so I have a good understanding of what the budget is.

I know some changes have been made, but for the benefit of the public who aren't privy to those detailed discussions, would you like to carefully go through each line item, and then after that, or along the way as commissioners have questions, certainly have them, and I will give the public a chance to comment, if and when we take any action on this budget.

Mr. Hannum.

MR. HANNUM: Great. Thank you, Mr. Chairman. So the budget before you should on the top left-hand corner say Virginia Racing Commission July 29th, 2015. That's the version I'm referring to, because we've made some changes over the last few weeks. This is essentially the same budget that we reviewed on July 1st, and so I'll go through it.

We put on the far left-hand side line numbers, which I will refer to, which hopefully, that will make it a little bit easier to follow.

Line Number One, the gross proceeds from ADW,
that's obviously an estimate.

MR. MILLER: Sorry for the interruption.

You're referring to something with line numbers and you're referring to something with a date in the left-hand corner.

MS. REID: I'm sorry. I didn't print that.

MR. HANNUM: So the line numbers aren't there?

MS. REID: That is the correct document. Those just aren't on there.

MR. MILLER: Well --

MR. HETTEL: Let's go make some copies of that.

MS. REID: Okay.

MR. MILLER: That's a good idea.

MR. HANNUM: You know what, Courtney? I might have --

MR. PETRAMALO: I'll volunteer my copy.

MR. REYNOLDS: We'll just wait until we all have copies.

MR. MILLER: She'll be back in a moment. It's not far.

NOTE: There is a brief recess; thereafter, the meeting continues as follows:

MR. HANNUM: Okay. So on the far left-hand side, you can see where it says Number One next to gross receipts from ADW, so that's where I'll be
starting.

The 916,000, that's an estimate for the remainder of 2015, and as I commented on on July 1st, that represents five months of revenue because we won't receive our first payments from the ADW companies until August.

Lines two and three are the statutory distributions laid out in the new law as indicated.

Moving down to expenses, Line Number Four, race day staffing and expenses, $250,000. That represents five days of racing at $50,000 a day. We have the guide of the Virginia Gold Cup over the past few years to help us determine the actual cost per day for racing with pari-mutuel wagering, and so we feel that's a very good indication of what expenses will be on a per-day basis.

MR. REYNOLDS: Does that include the lease payments?

MR. HANNUM: No. It does not.

MR. REYNOLDS: That's somewhere else?

MR. HANNUM: Yeah. That would be the next line.

MR. REYNOLDS: Okay.

MR. HANNUM: So the next line, Line Number Five, would be the lease payments for 2015. We
have two different leases; one for Great Meadow, which we've discussed earlier, and then Oakridge. So the Oakridge lease for four days is $80,000, and the Great Meadow lease is one day at $75,000. So that Line Number Five includes the leases.

MR. REYNOLDS: Why is it one seems to be significantly more expensive than the other and Morven Park is a lot more expensive than Oakridge? I know in real estate things are different and every deal is a little bit different, but how hard was it to negotiate the deal you got for Morven Park?

MR. HANNUM: Sure. Perhaps Dr. Allison could speak to that.

DR. ALLISON: The Great Meadow lease agreement, they are doing all of the preparation and maintenance.

MR. REYNOLDS: Okay.

DR. ALLISON: The others don't include that.

MR. REYNOLDS: Okay.

DR. ALLISON: So that's a significant amount.

MR. REYNOLDS: Okay.

MR. HANNUM: It is also important to note that it's not simply one day. Great Meadow, for example, includes -- I don't have the lease in
front of me, but I believe it's for -- how many
days is it, Dr. Allison? Five or six?

DR. ALLISON: Five days before the race and two
days. We are renting the whole place for seven
days.

MR. REYNOLDS: Okay.

MR. HANUM: So that's just an important note.
So yes, I think it's, you know, it's just a
reflection of the location of the facilities. Our
arrangements, whether we're doing maintenance or
not, and then the existing use of those facilities.

Great Meadow has a number of other activities
that take place there. This reflects what their
market rate is for events of this nature, and
Morven Park is unique in the sense that they have a
number of activities that are going to be taking
place there along with the racing, and to have that
facility for our racing has been an expensive, you
know, proposition. So I think it just reflects the
circumstances of each site.

MR. REYNOLDS: Thank you.

DR. ALLISON: Mr. Chairman, to compare things,
Gold Cup pays 125,000 per day racing at Great
Meadow. We don't like it, but it's all we have.

MR. REYNOLDS: That's the market, right?
DR. ALLISON: Every cent we pay to Great Meadow takes away the money that we would like to give the purses, so that's why we don't like it.

MR. REYNOLDS: Okay.

MR. HANNUM: Thank you. Event insurance, Line Number Six, would be liability insurance for the days of racing.

Moving down to administrative expenses, Lines Seven and Eight reflect the salaries for myself and other employees or contractors that we'll be bringing on for the balance of the year.

Most importantly, we will have to have a turf maintenance sort of facilities manager to help us bring Oakridge up to speed, and then if we're able to sign the Morven Park lease, which we're hoping to shortly, work will begin immediately on Morven Park. So Line Eight reflects costs for a facilities manager for the balance of the year, as well as money left over for race day operations; additional people we bring in immediately before the races and on race day.

Line Nine reflects taxes. Ten is IT expenses. As I've mentioned, we've been operating with a pretty lean operation to-date, and some dates that computers will need to be purchased.
Line 11 is insurance for the Alliance. Line 12 is interest expense on the loan that the HBPA has made to the Alliance to help us get up off the ground to fund operations in anticipation of the ADW money starting in August.

Line 13 is the office rent. We're able to share the office in Warrenton with the VTA and the HBPA, so we're only paying a third of what we'd normally be paying.

Then Line 14, travel expenses, represents my travel as well as all the other costs from going to different sites, and then at Oakridge, we're gonna have a high travel expense there. We have a number of people that need to stay at Oakridge throughout the duration of the two-week meet.

Management expenses starting on Line 16 reflect the cost for the back office support of the Alliance. The Alliance board voted to contract with Easter Associates for the next year to provide this support, which we feel would be critical in enabling us to, you know, to continue to move at the pace that we've been moving over the past six months.

Their support will include financial management, accounting, business consultation,
database management, secretarial support, web and
IT support, and as well as graphic design and event
planning. So there's a whole host of services they
will be providing really at a fraction of a cost
that it would be for us to go out and hire a
full-time staff for those duties.

Line 22 is the audit that is required now by
the statute for the Racing Commission. Marketing
and promotion, Lines 23 and 24, include the
development of a new website, as well as other
print and media to promote the races and to
communicate to our horsemen here in Virginia, as
well as throughout the region, events that are
taking place, and as well as the communications
personnel to help us with that task of writing
materials and disseminating information.

Lines 25 and 26 represent a contribution to the
Thoroughbred and Standardbred retirement programs,
as is required by the statute.

Line 27 is the cost that we spoke about at the
last commission meeting. Morven Park will have to
go through an extensive reengineering of their
equestrian park, which they have been working on
for a number of years now, and that is a component
of our lease, which is a $250,000 payment to Morven
Park for the costs associated with redesigning their equestrian park.

Line 28 represents the actual capital improvements that will be required that we anticipate will be required at Morven Park, including building a new fence, repairs to the storage stand, building a paddock and building a fence around the race course, installing an inner rail, as well as a host of other things which will inevitably come up.

Line 29 represents the loan that the HBPA has again made to the Alliance for operational expenses. It also represents the government affairs loan that was made earlier this year.

So that's the review of the budget, Mr. Chairman, and I would be happy to take any questions.

MR. REYNOLDS: Okay. Thank you, Mr. Hannum. Let's go back up. I'll ask a question. Let's go back up to the management expense.

I know we spent a lot of time on this when I visited you the other week, but I think for the public benefit, I think this needs a little further explanation.

You certainly explained why it made sense to
use Easter Associates to get up and running,
because they have all of these in-house
capabilities, and I don't know if you just went
through all of what they did, I think you did, and
that's at a cost of $85,000. How much would it
cost if you went and hired your own staff and did
it in-house yourself?

MR. HANNUM: Yeah. That's a good question. I
think that it would probably be upwards of
$150,000, perhaps more. Secretarial support would
probably be around $30,000 to $35,000 a year. A
CPA will be about 80,000 a year. Web and IT would
be about 30,000 a year. The graphic designs and
support would be around $20,000 a year. So I think
we'd be in excess of $150,000 a year to hire those
people outright, and so I think this is a
significant cost savings for the Alliance.

And importantly, if the CPA at Easter
Associates leaves or takes a break, there's
additional staff there to pick up. So it frees the
Alliance from having to manage the staff, which
would be a very time consuming element in and of
itself.

MR. REYNOLDS: I feel like $85,000 is a good
value. I don't know -- it certainly makes sense to
outsource it versus doing it in-house. Maybe you all didn't have the time this year, but did you all go out and bid this out to any other companies or -- well, I'll let you answer that.

MR. HANNUM: We didn't, Mr. Chairman, in that Easter Associates was providing these services for us going back to the inception of the Alliance, and doing it at a very minimal cost to help us get off the ground.

As we've been moving forward, the pace of the number of activities that we've been engaged in has been such that it would have been a very time-consuming process to develop an RFP and to go out and solicit those bids and interview those companies simply to put racing on this fall, and it would be very, very challenging to do that.

But the Alliance board in approving this contract for a year did so with the understanding that we'd after one year have the opportunity to open up this process to interview other firms for these services. So that is the intention of the Alliance.

MR. REYNOLDS: That was my next question. It certainly in my mind doesn't make sense at this point since you're up and running to bid it right
now. Perhaps get through this budget here and then 
maybe open it up to a bid process.

MR. HANNUM: Yeah. I think it would be 
extremely onerous to go through that process right 
now.

MR. REYNOLDS: Okay. I know Ms. Easter is the 
president of the VEA, and I think she's compensated 
through the VTA, but is she compensated through the 
VEA?

MR. HANNUM: No, she's not. So she's a 
volunteer for the Alliance with the blessing of her 
board, the Virginia Thoroughbred Association, so 
she does not receive any compensation for her 
activities with the Alliance.

MR. REYNOLDS: All right. Thank you. Other 
commissioners?

MS. DAWSON: Yes, Mr. Chairman. I have a 
question under -- I guess it's under 
administrative -- no, I'm sorry. It's under -- 
yes. It's under administrative, Line 14, travel 
and expenses. I know it's a small amount and you 
mentioned that a lot of that was road travel and 
that would include mileage and hotels and so forth.

MR. HANNUM: Yeah.

MS. DAWSON: But then you also mentioned there
would be some other individuals involved who would be on a consulting basis that you would need. Can you expand on that and explain what that's for?

MR. HANNUM: Yes. So Oakridge is unique in that it's two weekends back to back, October 10th and 11th and 17th and 18th. We will be camping out in Nelson County starting on the 5th and 6th of the month and be there through the 19th, so I will be there, obviously, for a large portion of that time coming and going, but our facilities manager will be there the whole time.

Our director of racing, our stewards, all the personnel and our maintenance crew. We'll have a large, you know, component of people that will have to be there throughout the two weeks.

So I think a lot of that portion of the budget will be taken up in hotel costs and getting staff there for that meet, so that's a unique circumstance.

MS. DAWSON: Do you have an estimated number of people that this would cover?

MR. HANNUM: I think that we will probably have I think probably five or six people there working for the Alliance in one way or the other that would be there throughout the duration of the meet, but
I'll think about that a little bit more and comment at the next commission meeting.

MS. DAWSON: But it's not just limited to Oakridge?

MR. HANNUM: Well, Oakridge would be that we'd need to be there throughout, because the horses will all be there. The horses will be arriving on the 5th and 6th. That's a qualifying day the Wednesday before the first Saturday, which is essentially a race day, and so there'll be the requirements to have a full contingent of officials there, you know, throughout the whole meet, which is different than Great Meadow, which would just be coming in for the day and then gone.

MS. DAWSON: Okay. Thank you.

MR. HANNUM: Thank you.

MR. MILLER: Mr. Chairman.

MR. REYNOLDS: Commissioner Miller.

MR. MILLER: It's fair to say that on travel and expenses for an operation that's new that has not been done before is what you hope is a reasonable guestimate?

MR. HANNUM: Yes, sir.

MR. MILLER: And it may or may not be that much; it may be more?
MR. HANNUM: Yeah.

MR. MILLER: You're just trying to provide us with what you think may be a reasonable anticipation of costs which will be incurred?

MR. HANNUM: Exactly. The entire budget reflects that.

MR. MILLER: Okay. Could I?

MR. REYNOLDS: Please ask all the questions that you have.

MR. MILLER: On your management expenses, unless my math is wrong, I was given a sheet by Easter Associates, and it says Easter Associates -- this is not a big deal, but I think we need to be as accurate as possible.

MR. HANNUM: Yeah.

MR. MILLER: Easter Associates will provide services to the Equine Alliance for 85,000 per year, but when I add up the management expenses for Lines 16 through 20, it comes to $74,000. Am I wrong?

MR. HANNUM: Sixteen through what line?

MR. MILLER: Through 20. Easter Associates will not be doing your event staffing.

MR. HANNUM: Yes, they would be. Lines 16 through 21 would be Easter Associates' costs, and
then the balance would be picked up in Lines 23 and 24, adding on what our needs are with the website and communications personnel.

So the management expenses with Easter would be -- would not include Line 22, but would include website development and communications work as well.

MR. MILLER: But the website development and communications has their own designation on Lines 23 and 24 under marketing and promotion, and you have exact figures there that you estimate will be what you will be budgeting for that, so even if you add in the events planning and staffing for $4,000, that would bring it to $78,000 instead of 85.

MR. HANNUM: Right. So, well, we broke out marketing and promotion because that is part of our mission as an organization to promote racing activities, so we wanted that to have its own section in the budget.

MR. MILLER: But I'm talking about the mathematical figures.

MR. HANNUM: Right.

MR. MILLER: You have mathematical figures for marketing and promotion in Lines 23 and 24. We're only talking about a few thousand dollars, but I'm
just suggesting that the information ought to be as exact as possible.

    MR. HANNUM: Right.

    MR. MURRILL: Can I speak to that?

    MR. HANNUM: Yes. Mr. Bill Murrill from Easter Associates has the breakdown in front of him.

    MR. MURRILL: You are looking at the column for 2016; is that right, Commissioner?

    MR. MILLER: Yes.

    MR. MURRILL: Okay. So if you take Line 16 through 21, you'll get $82,000, I believe.

    MR. MILLER: Sixteen through 21, 82,000. Okay. I've got 20, 15, 15, 12, 12 and 8.

    MR. MURRILL: For 82.

    MR. MILLER: That is 82.

    MR. MURRILL: Okay, and the other three, as Jeb mentioned, is kind of co-mingled in 23, website development. The difference between the website maintenance and the development is the maintenance is more the daily make sure the site is up, make sure your domains are current, do some updates of the websites for the content, whereas the development is more the programming side if they need have some things that are programmed. It's not building the entire site, but if they need
certain parts programmed during the year, then there is some cost in that also.

    MR. MILLER: Now while you're up, so the website development, print, radio, media and communications personnel, all that under marketing and promotion, especially Line 23, website development, you're not -- you don't have anything to do then with Line 10, the software hardware computer?

    MR. MURRILL: No. That's purchasing hardware, and that's going to be an outside firm if they need to have a little set-up of his computer mail.

    MR. MILLER: So that's a capital item under administrative expenses?

    MR. MURRILL: Correct.

    MR. MILLER: You have capital item to purchase the technology hardware.

    MR. MURRILL: Correct, and any support to get that up and running.

    MR. MILLER: Could I ask you another question?

    MR. MURRILL: You may.

    MR. MILLER: Easter Associates, are you -- have you been involved in event planning, race event planning before and race event staffing before?

    MR. MURRILL: This is not specifically race
event planning. This will be more planning associated with we anticipate the VEA may go to the Gold Cup and have their own tent or be partnered with the VTA, and Jeb, you can correct me on that. So there may be some events that the VEA will be putting on for the membership of the horsemen's group, membership of the VTA to try to educate their membership better to these different services.

MR. MILLER: So this is event staffing separate and apart from actual racing?

MR. MURRILL: Correct. Correct.

MR. MILLER: All right. Now, okay. Thank you.

MR. MURRILL: We're good? All right.

MR. MILLER: I have a question.

MR. REYNOLDS: Ask all of your questions, please.

MR. MILLER: Would it be possible -- well, first of all, it's apparent that you have executed a note with HBPA for $295,000, correct?

MR. HANNUM: Correct.

MR. MILLER: And that's for a loan from the funds that HBPA has on hand in their treasury at the present time?

MR. HANNUM: Correct.
MR. PETRAMALO: Didn't come from me.

MR. MILLER: That's what -- I'll get there in a minute.

So this $295,000, is that money that you borrowed from the HBPA? Is that in addition to other seat money that the Equine Alliance had in its start up?

MR. HANNUM: So, yeah. So back in October, each of the member groups put in $10,000 so we had $40,000.

MR. MILLER: That was from the VTA?

MR. HANNUM: VTA.

MR. MILLER: The harness horsemen's group?

MR. HANNUM: Correct.

MR. MILLER: The Thoroughbred horsemen's group?

MR. HANNUM: Yeah.

MR. MILLER: And the other one?

MR. HANNUM: Yes.

MR. MILLER: So they made a donation of $10,000 each?

MR. HANNUM: Well, donation. Semantically, I'm not quite sure --

MR. MILLER: They gave you $10,000?

MR. HANNUM: They funded us.

MR. MILLER: They funded the loan?
MR. HANNUM: Yes.

MR. MILLER: That $40,000 when added to the $295,000, that's the totality of your revenue needed to start up and get going?

MR. HANNUM: Correct.

MR. MILLER: Is that correct?

MR. HANNUM: Correct.

MR. MILLER: Okay. Would it be possible -- well, I know it would be possible, but would it be fair for the Commission to request of the VEA that it provide to Mr. Lermond of the Racing Commission a breakdown of all the funds expended from that 295,000 plus 40, which comes to 335,000 if my math is correct? Would you be able to provide to Mr. Lermond a specific breakdown of each item of expense that has come from that bucket of money?

MR. HANNUM: Certainly, and I can speak to the -- in general terms, the $40,000 got us through as an organization until a month or so ago, generally speaking.

The 45,000 that is noted in Item Three under notes for government affairs, that was 45,000 that the HBPA lent the Alliance for government affairs activity, and the 295,000 -- excuse me, the 250,000 was literally deposited a few weeks ago to help us
sustain ourselves until the ADW money comes through.

MR. MILLER: So you'll provide all that information to Mr. Lermond?

MR. HANNUM: Yes. I want to be clear the 250 has not been spent.

MR. MILLER: Well, you didn't have to go into that detail. I just want to know that you will provide Mr. Lermond with a specific breakdown of every penny spent or anticipated to be spent from that 300,000.

MR. HANNUM: If it's acceptable to the commissioners, perhaps at our next commission meeting, we could have those statements on hand which would show all revenues and expenses to date.

MR. MILLER: That'll be fine. That will cover the itemization of actual start-up expenses, so we'll have everything from whatever day in 2014 you began through whatever date you provide the information to Mr. Lermond.

MR. HANNUM: Certainly. That's fine.

MR. MURRILL: Mr. Commissioner or Jeb, may I speak on this point since you're promising things that might not be as easy as you think?

The question on the 250 that is the start-up is
going to start to become co-mingled with the ADW 
revenue to run all these operations going forward, 
so to say which money was spent from the $250,000 
and which was spent from the ADW, is that what 
you're getting at?

   MR. MILLER:  No.  I'm not concerned about -- I 
just want to know that it may be good enough for 
Mr. Lermond to know that you put $250,000 in the 
First National Bank of Reston or whatever, and it's 
sitting in that account.

   MR. MURRILL:  Okay.

   MR. MILLER:  And of course as you get revenue 
in, I assume you're going to be working from that 
account, wherever it is.

   MR. MURRILL:  Correct.

   MR. MILLER:  But those funds will be further 
identified to Mr. Lermond, because that will be the 
public money that is coming into the account from 
the ADW operation.

   MR. MURRILL:  Okay.

   MR. MILLER:  What I'm getting at is we have a 
responsibility to identify every penny, and then we 
have a responsibility to approve and be comfortable 
with the expenditure of every penny, and that's the 
point.
MR. MURRILL: Okay. There's no problem doing that.

MR. MILLER: That's where we want to be so that at any given time, John Q. Public can get in touch with Virginia Racing Commission and say I would like to know what happened with this item of money or that item of money that came into the VEA's coffers, and we must be able to account for that.

The best way to account for that is to get good information from people that are actually doing the receiving and the expending. It's simple economics, in my mind.

MR. MURRILL: I understand now. Thank you, Commissioner.

MR. MILLER: Now, I'm a little bit curious about the one item, and that is the $45,000 government relations part of that note. I have already expressed off the record my concern about the expenditure of public funds, tax payer funds, for what I call lobbying, government relations, whatever you want to call it.

I don't think it's appropriate for the VEA as a statutorily-created organization created by legislature for any tax funds, and when I say tax funds, the money that's coming from the ADWS is a
tax for them to operate in Virginia, and I don't think it's appropriate.

The Commission may think otherwise, but I just want to get on the record that at least I don't think it's appropriate to expend tax funds that are received by a quasi-public entity, because it was created by statute by legislature to be the trust to receive and expend those tax funds that come from the ADWS and perhaps in the future from the satellite wagering and wherever it may come from.

It is not appropriate to spend that money to lobby the Virginia state legislature, a town counsel, a board of supervisors or any other public body or public official. To me, it's not appropriate.

So you can call it government relations or whatever, but it's just not an appropriate expenditure of funds, in my belief. Therefore, I'll have to vote against the budget, unless we clarify that this $45,000 portion of the note to HBPA is removed.

You shouldn't -- that money or any money used for lobbying efforts should have come from, in my opinion, the individual horsemen by an assessment, the members of the HBPA by assessment, the VTA by
assessment of their members, the Gold Cup by assessment of their members if they want some lobbying done.

That's where the money should come from for lobbying efforts, not the tax funds that you receive and that the legislature has entrusted you with to carry out your mission, and that's just the way I feel.

So moving -- the government relations in your original budget show the government affairs representation, and I was told that can be removed and I see it has been removed, but you put it over here as a debt obligation to the HBPA, so that's just an on the one hand and then on the other hand type of operation, and I just don't think that's right. I just want to get that on the record.

MR. HANNUM: That money is spent, Mr. Chairman.

MR. REYNOLDS: It's already spent?

MR. HANNUM: Yeah.

MR. MILLER: Apparently, they want to recover from the public funds they're receiving for the expenditure they set forth in the last session of the legislature to lobby, and I don't think that's appropriate. That's just one vote.

MR. STEGER: Mr. Chairman.
MR. REYNOLDS: Commissioner Steger.

MR. STEGER: I think Commissioner Miller has a point, at least that other public entities that we've had to operate where no public money was used for lobbying, but it might be useful to except that item from the budget so we don't hold things up and get a legal opinion to re-enforce our action if we choose to follow the recommendation so we can move forward with everything else but that.

MR. REYNOLDS: Commissioner Miller, this money has been spent. I don't know if there's a way to deal with it or not, but would it be acceptable to say this money has been spent, it's on here, but going forward, you know, I agree I don't think we should be using public moneys for lobbying efforts, either.

This money has been spent, so how do you think we should deal with that?

MR. MILLER: Well, the fact that the money has been spent, as far as I can see, doesn't present any problem. They have spent the money. It's a question of where they are going to recover this money from.

If they have spent $45,000 on a lobbying effort during the last session of the General Assembly
instead of adding that to the note of the horsemen and then paying that note from the public funds they receive, I would suggest that they recover the $45,000 by going back to their constituent membership and having assessments made to pay that to compensate for that $45,000, if the horsemen want to be compensated for it.

MR. PETRAMALO: Well, respectfully, I don't agree with your analysis, but that aside, I would be more than happy to go back to the HBPA board and ask them to forgive the $45,000 loan that was made for government representation purposes. That way, we take the issue off the table. Assuming my board agrees, we take the issue off the table and it comes out of our pocket.

MR. MILLER: That would be wonderful. Not for you, not from your perspective.

MR. PETRAMALO: I was going to say can I quote you when I go back to say Commissioner Miller says it would be wonderful? I'm kidding.

MR. MILLER: That just makes it clear that taxpayer funds are not used or have not been used to compensate for lobbying efforts heretofore done, and we can be sure that the taxpayer funds will not be used in the future for lobbying efforts to
come in the future.

MR. PETRAMALO: I will take care of that.

MR. MILLER: That will be wonderful. As I say, wonderful.

MR. PETRAMALO: I'll take care of it.

MR. MILLER: So if we --

MR. REYNOLDS: I will invite the public to speak before we make a motion, but if there are other commissioner questions.

MR. VAN CLIEF: One last question, if I might. On the loan itself, I see it carries an interest rate of four percent. What are the other terms that are relevant here; specifically the term of the loan and terms of repayment?

MR. HANNUM: Yeah. So the HBPA has the right to make a call on that loan on January 1st, 2016, so that answers that question, but the four percent we felt was -- the HBPA felt was a fair, you know, rate based on, you know, similar bank rates and we don't have any collateral.

MR. REYNOLDS: Mr. Lermond.

MR. LERMOND: Mr. Chairman, I just want to ask Mr. Hannum is it your intention to repay that loan in January of 2016?

MR. HANNUM: Well, we would have to discuss
that with the HBPA, but the budget for next year, we would -- I don't anticipate that we would be able to pay it off in January, but we put into our budget for next year a payment plan to pay down that principal based on ADW revenues and our other expenses.

But I don't think the HBPA -- I can't speak for them, but I don't think they're gonna ask us to pay it back on January 15th, 2016. I imagine they would be open to a repayment plan over the course of, you know, the year.

MR. LERMOND: The reason I ask is because you're showing a full year's worth of interest payments for 2016 in the line item for interest expense. So to me, that would indicate that balance is gonna be there for that whole entire year, 2016 --

MR. HANNUM: Yeah.

MR. LERMOND: -- and if there were gonna be repayments in 2016, it probably should show up here somewhere as expenditures.

MR. PETRAMALO: I think what it shows is a worst case scenario. Remember, the HBPA is one of the members of the Alliance and we're not gonna show up on January 1st banging on the door and say
give us $250,000 if it's not prudent in terms of
the VEA's budget. We're willing to work with them.
It's our organization. It's our alliance.

MR. LERMOND: I understand, but the interest
expense item for 2016 will indicate that that
balance will remain for that year, because if not,
that interest would do down.

MR. HANNUM: Just to comment about the budget.
I mean the 2016 year, as I understand the vote on
the remainder of the year, and so we haven't really
given a whole lot of thought to that matter, so it
just hasn't been an item we've discussed.

MR. LERMOND: To clarify Commissioner Miller's
point, if Frank's board agrees, then the repayment
amount for the loan would go from 295 down to 250.

MR. PETRAMALO: That's correct.

MR. LERMOND: I think that's the way
Commissioner Miller envisioned it.

Thank you, Mr. Chairman.

MR. REYNOLDS: Thank you. I see the interest
showing worst case scenario if they don't pay down
principal next year. As far as carrying the debt
on the income statement, debt is carried on the
balance sheet, so we should be okay there.

MR. LERMOND: Any payments would be shown in
cash flow?

MR. REYNOLDS: Correct. Any other comments or questions by my fellow commissioners at this time?

NOTE: There is no response.

MR. REYNOLDS: At this time, I'd like to invite the public to speak on this issue. If there's anybody from the public that would like to make a comment before we take action. I will remind you you're limited to five minutes. Please state your name for the record and stand up, please.

MR. BERMAN: Tad Berman, and I'm a member of the public. I'd like to sit down.

MR. REYNOLDS: That's fine.

MR. BERMAN: I've got my laptop.

MR. REYNOLDS: That's fine. Just speak clearly and loudly.

MR. BERMAN: I just want to say thank you, because you guys ask a lot of the questions that I have. I've got a statement I'm gonna read anyway, just to let you know where I stand as a member of the public.

I'd just like to reaffirm the fact that all the money that --

MR. REYNOLDS: Speak slowly, please, so she can get it.
MR. BERMAN: Just reaffirm that all the money in the VEA's budget are public funds, and that they are just custodians of that money. To begin with, I would like an explanation why the VEA is paying Great Meadow $75,000 rent for one race day this year and $100,000 for two days next year, while also proposing to pay Morven Park 50,000 per day for eight days for a total of $400,000 in 2016. This is in addition to the Alliance providing another 50,000 per day -- they also staff those venues.

How can these excessive costs be justified? I understand that Great Meadow receives, I think you said $125,000 on Gold Cup day, but they claim they have upwards of 75,000 spectators at that event, and I think that that will hardly be the case for one day of flat racing, so why are these two venues getting paid so much, especially in light of the fact that Oakridge is only getting $20,000 rent for a total of $80,000 for four days for the VEA to rent that facility?

I also see that the VEA proposes subcontracting its day-to-day management operations to Easter and Associates for $85,000, similar to what the VTA does with the Breeders' Fund.
That doesn't sit well with me, seeing how Ms. Easter is the president and executive director of those two associations respectively, and as a member of the general public, that in itself, at least to me, would appear to be a conflict of interest.

And when you combine that with the fact that Easter and Associates is being paid to provide lobbyists to represent the VEA, VTA and the HBPA for this coming year, that adds up to a sizeable amount of money.

I was gonna ask were any other consulting companies even given the opportunity to bid on that contract. I think we already answered that question.

Third, there's a $300,000 loan that the VPA loaned to the Alliance. I'd like to know where that money came from. Did it come out of the horsemen's purse account, and what is it being spent on?

Senate Bill 1097 clearly says that the VEA needs the Commission's approval of all money spent by the Alliance, and I'd like to know exactly where this money is going and how the VEA intends on paying this money back.
I do see where the VEA is already paying $11,800 in interest to the VHBPA for a loan this year.

One thing that I heard you discuss was Mr. Petramalo said that they would perhaps forgive the $45,000 for the lobby, but did this $300,000 come out of the horsemen's purse account? Because that's public money, too. So if he forgives it out of the horsemen's purse account, that's half a dozen of one, six of the other. So I think we need to clarify where that money came from.

Finally, I think the one thing that illustrates what I think about this budget more than anything else -- excuse me, I'm almost done.

MEMBER OF THE PUBLIC: I bet you are.

MR. BERMAN: The one thing that illustrates what I think about this budget more than anything else is listed under the last full category titled Other.

When Senate Bill 1097 was passed, it was mandated that certain things would be deducted from the four percent of the ADW money the Alliance would receive. This includes set percentages for New Kent County, the vet hospital, the horse center and the Horse Industry Board.
The one thing that was mandated that money be set aside for, Thoroughbred and harness horse retirement programs. Another thing that was mandated was money to be set aside for the Thoroughbred and horse retirement programs.

That money was left up to the discretion of the VEA, and at the end of the day, after proposing to spend hundreds of thousands of dollars for high-dollar salaries and consultants and exorbitant amounts on management expenses, the VEA only sees fit to contribute a paltry $5,000 to that worthy cause.

And next year in fiscal 2016 when the VEA's budget increases $1,074,792, all those salaries and consultant fees and rent and management expenses increase at least two-fold, but the one thing that doesn't increase is the meager $5,000 contribution to the Thoroughbred retirement programs. And with those comments, I will conclude.

MR. REYNOLDS: Thank you very much.
MR. BERMAN: Thank you.
MR. REYNOLDS: Are there any other comments?
Yes, ma'am. Please state your name.
MS. GOODWIN: My name is Heather Goodwin. I'm actually here today representing Oakridge, which is
one of your considered contracts for today. If I may touch on a couple of things in reference to what was just discussed.

Our contract, yes, is much less significant in size as some of the other locations, and that's for a couple of points. One, our track has not actually been used since 2001, the last time we raced, but we are actually your only other license, previously having operated a racetrack in Virginia.

The main reason, to answer your question as far as our pricing, is that we have a passion for horse racing. We have a passion for this industry. We worked with some of these individuals for multiple years now. We want to see the VEA succeed, and the only way they're gonna succeed is to have partners such as ourself who help guide them through the process.

So part of what you will see later on today when you discuss the contracts is a huge difference in the operations as well. In our contract, the VEA is responsible for racing because that's what they know and that's what they need to manage. We will actually undertake all pedestrian and public-side events and undertake all the costs associated with that as well.
Tents, foods licensing, parking staff, anything that's on our side of the rail is our business. We're gonna handle that because that's what we do. We have extensive experience in event management, so we shouldn't be concerned on that end.

But there is a huge financial difference there. That is our choice, choosing to assist the VEA and hopefully assist the industry. Hopefully, that helps you to understand the difference there.

I do want to comment on the budgeting issues on the 45,000, and this is mostly from a taxpayer standpoint. I would argue that every industry in Virginia, whether it is the Department of Education, Social Services, the Justice Department, you name it, receives tax funds to operate their individual entities also utilize those funds for lobbying, whether it is through direct procurement of lobbyists or similarly having their members attend Richmond one particular day of the year. That's hundreds of thousands of hours my tax dollars are paying for that person to go and lobby.

So I do understand your concern. I'm not big on having tax payer dollars go out for particular interests, but I think that that's somewhat of a wash across the board.
I do agree with this gentleman's comment that whether it's the VEA or one of the supporting entities, it's still tax payer funds.

The other thing that I do want to address, I know that there's some concern with that as far as timing and whether or not the 45,000 can be planned for Oakridge. We are down to about 60 days before the races. Not being able to approve this on July 1 and pushing it to the end of the month, we lost 30 days.

So for us to make a good showing in four days, majority race days for this year, we need you to go ahead and pull the trigger so we can start to do things. Do you want people in the stands? I need to know now so I can do what I need to do. So I would encourage you to move forward with this contract today, as well as approve the budget.

Thank you.

MR. REYNOLDS: Thank you. Dr. Allison.

DR. ALLISON: Yes. I'd like to clarify something he --

MR. REYNOLDS: Dr. Allison, we need to move on. Thank you. Commissioner Miller. I'm sorry. State your name, please.

MS. HESTER: Leanne Hester. Just one question
I have on the budget. One point one million is to be spent on the race day expenses. I just want to know if there's anything in place for Colonial if they come back.

I still feel like this is a band aid. We need a real, full-time track. I want to make sure that these funds will somehow -- will this be contributed to Colonial if they come back to run races? I mean that's 1.465 million.

MR. REYNOLDS: Yes, ma'am.

MS. HARRELL: Christie Harrell. Aside from whatever everyone else has said and the focus being on this $45,000, we're talking about taking moneys, a great deal of money that are considered part of the tax payers' dollars, and we are going to possibly be putting it towards the capital improvements for property that is part of a nonprofit organization, Morven Park.

I don't believe that that's an appropriate use of funds. If it was set up as such of a program that like Tom Clark, for example, just recently put together, that would have been an ideal situation.

But for the money to be utilized to make improvements on property that ultimately the tax payers' money is being applied towards the
development of a venue that truly is not going to be ever a part of the Commonwealth's public lands, if you will, and I apologize I'm not a very good speaker, by any means.

MR. REYNOLDS: You're doing fine.

MS. HARRELL: Given what I know with regards to the development of a property, the amount of time and money and energy that has been put towards all of this whole hurrah for the past two years, we could have actually had a wonderful venue developed, and it would have been available to every, every part of the horse industry.

Therein lies another issue that I have. I think it was in the newspaper a couple days ago. Mr. Hettel submitted something, a letter to the editor, and in reference to that, the statement part of his letter stated the VRC is charged by law with promoting, sustaining and growing a native horse racing industry in a manner consistent with the health, safety and welfare of people.

Given the fact that it's now under the Department of Agriculture and Forestry, I think it's really important to be mindful of the fact that when you're talking about those farms, the mom and pop grain stores -- I'm sorry.
MR. REYNOLDS: That's all right. You're doing fine.

MS. HARRELL: There's a trickle down effect, and if every single bit of energy is put towards focusing on those two venues up there in Northern Virginia, what kind of benefit is that going to be, ultimately, to the Commonwealth at large when we're talking about the trickle down effect regarding the agricultural industry that supports the horse industry, which quite frankly, the horse racing industry is a very small portion of that, but has the opportunity to glean moneys and filter it right back through, as it's supposed to be, into the preservation and the restoration of this industry at large, of the horse industry at large? That's all.

MR. REYNOLDS: Okay. Thank you very much. Any other comments?

MR. MILLER: Mr. Chairman.

MR. REYNOLDS: Commissioner Miller.

MR. MILLER: I'd like to respond to three items. The first one is the use of the horsemen's funds that have been accumulated over the years or over time from the receipt of funds they received under the statute from pari-mutuel wagering.
The fact they use some of these funds for a loan to the VEA is exactly meeting the purpose of the horsemen receiving funds in the first place under the statute.

They receive a certain percentage of the wagering done in Virginia, and they receive those funds with the idea that they are going to promote, sustain and help grow the horse industry in Virginia. What better way to promote, sustain and help grow the horse industry in Virginia than taking the money that's lying in their account.

When the track, the major track in Virginia closed, there's no avenue for any kind of meaningful horse racing in Virginia without tracks. What better way for them to use their funds on hand than to make a loan to a legislatively-created group that was created, again, as an additional entity to promote, sustain and grow the horse industry in Virginia.

So the fact that they had that money on hand and loaned it to the VEA, I think exactly meets their purpose, and so I think any criticism of them using those tax funds is ill placed, because they are using them for exactly the purpose that I think the legislature intended.
The second point on the governmental entities lobbying. No governmental entity lobbies in Virginia; they may in other states. They are prohibited from lobbying in Virginia, but they have a category they call legislative liaison. It's a lobbyist by another name, but those legislative liaison from the educational institutions, the county governments, town governments, many other public entities in Virginia have legislative liaison personnel that converge on Richmond during the session, and they do perform practically the same function as a paid lobbyist who are there to represent various industry organizations.

The difference is that when a public entity sends a legislative liaison to Richmond to do their work with the General Assembly, that's all a matter of public record, and the citizen constituents of those various governmental entities have an opportunity to examine those expenditures and those activities, and if they don't like it, they can vote the people out who authorized it. That's the ultimate weapon they have.

In Virginia Beach, and they've done it for years, they send several legislative liaison to Richmond. The City of Alexandria does the same.
Various educational institutions do the same, but their subject -- it's all subject to public scrutiny, and the public has an opportunity through their vote or through pressure put on at counsel meetings, board of supervisors meetings, board of visitors meetings, et cetera, et cetera, to change that situation if they want to if they're not satisfied with it.

The situation of a public entity such as the VEA getting involved in lobbying is that there's no opportunity for the public to come and make any kind of adjustment about what they're doing. It's not, you know, it's a step removed from the regular public meeting process where people have an opportunity to come forward and express their view about whether or not this is an appropriate expenditure. That's the difference between a lobbyist from industry and a legislative liaison from government. I just want to clarify that point.

MR. REYNOLDS: Did you have a third?

MR. MILLER: Oops.

MR. REYNOLDS: It's always three.

MR. MILLER: That's my reference. If you didn't get it, that's my reference to Governor
Berry, because I forgot my third point.

MR. REYNOLDS: So you're done?

MR. MILLER: Yeah. I'm done.

MR. REYNOLDS: With that, we'd love to entertain a motion.

MR. MILLER: Well as Dr. Steger says, you know, we could move forward with this. If there's no objection, I would suggest that if we want to move forward with this budget so we can meet the concerns of the Oakridge track and all the stakeholders, we shouldn't drag things on and on indefinitely.

If you could make the proper adjustments in your budget to reflect that you still have a HBPA proceed, loan proceeds of $250,000 that you're going to meet under your budget, and somewhere make a notation on here that the VEA did receive $45,000 in addition to the $250,000 from the horsemen, and that that $45,000 is anticipated to be a forgiven debt.

MR. HANNUM: Yeah.

MR. MILLER: If that can be reflected on that basis, I would move that we approve the budget with that adjustment.

MR. HANNUM: That's acceptable, sir.
MR. VAN CLIEF: I'll second that.

MR. REYNOLDS: Is there anymore discussion?

MR. STEGER: I just might draw analogy with the governor's economic opportunity fund, where if we are trying to recruit a business to come to Virginia to create new jobs, the governor provides a grant of taxpayer money on certain conditions that so many jobs are going to be created in the region or the state in general that comes from tax money, that's exactly what we're doing here.

MR. MILLER: Right.

MR. REYNOLDS: Anymore comments?

MS. DAWSON: I would just like to comment. I think Commissioner Miller has given us all service in explaining all this, but I'd also like to point out that this Commission also performs one of these duties in terms of educating the public.

They can all come to this meeting, any future meetings to ask questions and to look at the records. So I do hope we've covered that, and it sounds like we have.

MR. REYNOLDS: Okay. I have a motion and a second on the table. All those in favor, say aye.

MS. DAWSON: Excuse me. This is just for the budget?
NOTE: The Commission votes aye.

MR. REYNOLDS: Just for the budget. All those opposed, say no.

NOTE: There is no response.

MR. REYNOLDS: The motion carries unanimously.

The VEA's budget as amended by Commissioner Miller's motion is approved.

MR. LAWS: Mr. Chairman, if I may, I was able to do some research.

MR. REYNOLDS: It took a while to hear from you today, Mr. Laws.

MR. LAWS: I try to speak when I only have something of value to say. I did some research on the lease agreement question, and I do have an answer, if the Commission is prepared to take that up at this time.

MR. REYNOLDS: Okay.

MR. LAWS: The question that I looked into is whether or not the Commission had the authority to approve the lease agreement that's under Tab Two, and my reading of it is, yes, they do, under 59.1-392.1(A)1 of the Code of Virginia.

The statute reads concerning the ADW payments. Four percent to a nonprofit industry stakeholder organization recognized by and with oversight from
the Commission.

Because the lease agreement calls for $50,000 to be paid from the VEA to Great Meadow, the Commission has the authority under this oversight provision to approve the lease agreement if the Commission chooses. They don't have to do it, but they have the authority to do it if you want to.

MR. HANNUM: Mr. Chairman, may I make a comment?

MR. REYNOLDS: Yes, sir.

MR. HANNUM: Just for the sake of discussion, I would just comment that if we have an item clearly identified in the budget, so for Oakridge, for example, we have the lease funds already indicated in the budget, the budget has been approved, then I would make the argument that perhaps you would not need to formally approve the lease if you do not want to, and it may be the Commission's view that you don't want to actually do that if it has already been included in the budget. Just an observation.

MR. REYNOLDS: Thank you. I will ask the commissioners their opinions. It's my opinion that if we've approved the budget and we've approved the race dates, that it's not necessary for us to get
into the weeds in these agreements, unless they are contrary to what was approved in the budget, so I'm going to recommend that you all do your own lease agreements. We do like to have them to look at them, but I don't think we need to approve them, but I'm going to ask --

MR. STEGER: I concur with the chairman on that.

MR. REYNOLDS: Commissioner Dawson.

MS. DAWSON: I agree.

MR. REYNOLDS: Commissioner Miller.

MR. MILLER: I agree, because namely, there are certain things in the lease agreement we may not want to put our stamp of approval on. They may get into a dispute in the future, and if they say the Commission approved it, we're approving the financial terms of these, but I don't want to approve every little line item in a lease.

MR. PETRAMALO: Don't want to invite any lawsuits.

MR. REYNOLDS: Okay. So having heard all of that and the opinion from Mr. Laws, we are not going to take action on the Great Meadow Foundation and the VEA lease for Great Meadow.

Also on the agenda was the approval of the
Oakridge contract as well. We don't need to take action on that, correct?

MR. HANNUM: That's --

MR. REYNOLDS: We just approved your budget. Those numbers are reflected in your budget.

MR. HANNUM: That's my -- so that in a sense --

MR. PETRAMALO: Let me be a lawyer for a minute here. Because the -- I understand your position and I agree with it, but because both leases, the Oakridge and the Great Meadow, have at the last clause saying this is conditioned on approval, I think you should go ahead and approve it, just so somebody down the path says, oh, wait, this isn't a legitimate contract because it wasn't approved.

MR. REYNOLDS: Could you say that it was approved because we --

MR. PETRAMALO: You chose to exercise your discretion, as Mr. Laws has --

MR. REYNOLDS: Would you like for us to approve this?

MR. PETRAMALO: Yes. I think out of an abundance of caution, you should approve both contracts.

MR. REYNOLDS: So you can sue us later?

MR. PETRAMALO: Unless I have good cause, I
I wouldn't sue you.

MR. HANNUM: Just as a comment as we sort of muddle through this process. We put that paragraph in those contracts because we were not really sure how you all wanted to handle this --

MR. PETRAMALO: Yes.

MR. HANNUM: -- so we did that just so we were protected, but I think going forward, based on this conversation, future leases, so long as they conform to the budget, we would not have that language in there.

MR. PETRAMALO: Correct. Yeah.

MR. MILLER: Where is that writing?

MR. PETRAMALO: The very last paragraph in both the -- should be in both the Oakridge one and the --

MR. MILLER: I'm looking at the Oakridge one.

MR. REYNOLDS: How hard would it be for you to amend those contracts and leases just to take it out?

MR. PETRAMALO: We could do that.

MS. GOODWIN: I'm authorized to make an amendment here today.

MR. REYNOLDS: What was that again?

MS. GOODWIN: I'm authorized to make an
amendment on that contract here today, and I'll initial that to allow it to go forward, if we need to.

MR. REYNOLDS: Can we just take it out?

MR. HANNUM: With Oakridge, we can delete that paragraph, so I think that matter is settled, and then with --

MR. REYNOLDS: Let's do that.

MR. HANNUM: With Great Meadow, that's --

MR. MILLER: I'm looking for it. I see it in the Great Meadow. I don't see it in the Oakridge. I'm looking.

MR. REYNOLDS: My preference would be to just delete it.

MR. MILLER: We have to find it before we delete it. I have the tab. I'm looking at the lease agreement between Oakridge Estate and the Virginia Equine Alliance. We need to find the language.

MR. REYNOLDS: If it's not in there, it's okay.

MR. MILLER: If it's not in there, we don't need to delete it.

MR. VAN CLIEF: I don't see it.

MS. DAWSON: I don't see it, either.

MR. PETRAMALO: That's correct. It's not in
there and I know the reason why.

MR. MILLER: Pardon?

MR. PETRAMALO: I say it's not in the Oakridge. That's fine. It's not in the Oakridge one. I misspoke.


MR. PETRAMALO: What about the Great Meadow VEA lease? That does have the --

MR. REYNOLDS: We're gonna strike --

MR. PETRAMALO: You can't do that because we don't have the Great Meadow people here.

MR. REYNOLDS: Tell them it is deemed approved because we approved the budget or do they want us to take action?

MR. PETRAMALO: I think it should be on the record. Not that they want to do anything. I don't think they would oppose, but just for the legal nicety of a contract being enforceable, it should meet the condition preceding.

MR. REYNOLDS: Okay.

MR. MILLER: Frank, could we limit our approval to the financial terms of the lease?

MR. PETRAMALO: I think that would be okay.

MR. MILLER: If you don't mind, I would move
that we approve the Great Meadow Foundation and VEA lease agreement as to its financial terms.

MR. PETRAMALO: Yeah. That'll do it.

MS. DAWSON: Second that.

MR. REYNOLDS: I've got a motion and a second. Any comments?

MR. VAN CLIEF: May I ask Dr. Allison if he thinks this would present a problem?

DR. ALLISON: No.

MR. VAN CLIEF: Thank you.

MR. REYNOLDS: Anymore comments? Again, we have a motion and a second. All those in favor, say aye.

NOTE: The Commission votes aye.

MR. REYNOLDS: Those opposed?

NOTE: There was no response.

MR. REYNOLDS: Hearing none, the motion carries unanimously. Thank you.

MR. HANNUM: Thank you, Mr. Chairman.

MR. REYNOLDS: Thank you, Mr. Hannum. Forgot you were up there. Thank you very much. Well done.

I'd like to go to Tab Five, the proposed expenditure from the Thoroughbred portion of the Virginia Breeders' Fund for 2015. The Thoroughbred
subcommittee of the Virginia Breeders' Fund voted to recommend the following additional expenditure from the Thoroughbred portion of the Virginia Breeders' Fund for 2015.

Approximately $25,000 for 100 percent Virginia-bred owner bonus program for all non-restricted races contested on September 20th, 2015 at Great Meadow race course for horses finishing 1st through 5th with a cap of $10,000 per award.

Does any commissioner -- we do this every year when we have racing.

MR. MILLER: Is that a motion?

MR. REYNOLDS: Yes, sir.

MR. MILLER: Did you make a motion?

MR. REYNOLDS: I did. I just read the statement. I'd like a motion to approve that the Virginia Breeders' Fund expend an additional approximately $25,000 for 100 percent Virginia-bred owners bonus program for all non-restricted races contested on September 20th, 2015 at Great Meadow race course for horses finishing 1st through 5th with a cap of $10,000 per award.

Do I hear a second?

MR. STEGER: I'll make a motion. We have a
second. Do we have a motion?

MR. REYNOLDS: Yes.

MR. MILLER: I'll second.

MR. STEGER: I'm sorry.

MR. REYNOLDS: Any comments or discussion? I have a motion and a second. All those in favor, say aye.

NOTE: The Commissioners vote aye.

MR. REYNOLDS: Those opposed?

NOTE: There is no response.

MR. REYNOLDS: Hearing none, the motion carries unanimously.

Okay. Let's stop here and take a five-minute break before we get into our last issue of the day. My battery died, so I don't know what time it is, so please be back in five minutes. Thank you.

NOTE: There is a recess from 11:30 a.m. until 11:48 a.m.; thereafter, the hearing continues as follows:

MR. REYNOLDS: Last on the agenda is a discussion about the Virginia-bred and graded stakes in Maryland. At our meeting last month, we approved two things. One was to have the Virginia-bred stakes program up in Maryland for next year as kind of a place holder until we get
racing back in Virginia.

We also approved moving four graded stakes races up to Maryland, changing a couple of the names for a couple of the stakes for next year as a way to try to protect our graded stakes status, and you all made a compelling argument to do that, to go to Maryland to do that.

But since then, I think a couple of things have changed that have kind of changed what we approved last month, so I'm going to ask Mr. Petramalo or anybody else to kind of take us through what's going on up there since our vote last month and where are we now and where are we, you know, where are we gonna go.

MR. PETRAMALO: Just to recap, Mr. Chairman. At the last meeting, you approved running our five Virginia-bred stakes at Laurel in September. The purses are $60,000 per race. The VHBPA would put up 50,000 and 10,000 would come out of the Breeders' Fund. There's been no change there.

However, with the regard to the graded stakes, the proposal that the VTA and the VHBPA and the Alliance put together had our four graded stakes moving to Maryland.

The former Virginia Derby, Grade Two, would be
in Maryland with a $400,000 purse. The Colonial Turf Cup would -- that's also Grade Two, would go with, I think the purse there was going to be 300,000, and then the Virginia Oaks for fillies, Grade Three, would be there at 150,000, and the All Along for fillies and mares would be Grade Three at 100,000. That should have totaled $900,000.

In the proposal we put forth and you approved at the last meeting was that the Maryland Jockey Club had agreed to put up 450,000 and the VHBPAA would put up the other 450,000.

MR. REYNOLDS: Did they agree to do it or were they hoping they'd agree to do it?

MR. PETRAMALO: No. They agreed to do it.

MR. REYNOLDS: Okay.

MR. PETRAMALO: That was the proposal that they made to us and we accepted. However, the unspoken assumption on both sides was that it was subject to the approval of the Maryland horsemen, because they control the purse funds, to a certain extent.

The Maryland horsemen when approached by the Maryland Jockey Club for their okay balked somewhat for the following reason. Purses in Maryland so far this year have been overpaid by $4 million. In other words, the management has paid out more money
than was in the cash box.

Now that's not unusual, because it really is a cash flow problem. As long as by the end of the year, you generate enough revenue, everything evens out.

Well, the horsemen were concerned that they weren't going to be able to have enough revenue, which meant that going forward into the fall, their purses would have to be cut and they did not want to go further in the hole by putting up $450,000 for these Virginia stakes races.

What they proposed in the alternative, which the Maryland Jockey Club accepted and which we found acceptable, the HBPA, was that the All Along would be bumped up from the 100,000 proposed to 150,000, and the Maryland horsemen would fund that by cutting out three of their own minor stakes races.

However, with regard to the other three stakes, the HBPA would put up all of the purse money, and that would be a total of 800,000 instead of 450,000. However, the HBPA would keep all of the wagering revenue that was generated by those races. Instead of having to split it, we would keep all of the revenue. We found that acceptable. It
certainly was affordable as far as we were concerned, because we have approximately $6 million available for purses.

Let me go back over some of the territory we covered last time and talk about why these graded races are important and why they need to be run this year.

There are approximately 40,000 races run each year in the U.S., Thoroughbred races, flat races. About one percent or less are graded stakes races. This is the cream of the crop. So you have 400 graded stakes races.

Stakes races get an official grading by a national organization called the Graded Stakes Committee. It's part of the Thoroughbred Owners and Breeders' Association, but it's a graded stakes committee, and each year, they determine which races deserve to have the most prestigious appellation, and mainly the graded stakes, the grades are from one to three. Kentucky Derby, for example, is a Grade One. The Virginia Derby was a Grade Two, the Virginia Oaks was a Grade Three.

Now attaining graded status depends on a number of things; the quality of the horses, the quality of the competition, and also the purses offered.
Now, over the years at Colonial, the horsemen worked very hard to obtain graded status for three races. The Virginia Derby started out, I believe, at around $300,000. When I say started out, we are talking about 2000, 2001, et cetera, and it was ungraded. Half of that money, 150,000, came from the HBPA; Colonial Downs put in 150,000. We embarked on a program to increase the reputation and prestige of Virginia racing at about 2003 and 2004.

One of the main architects of that program was former commissioner, Peter Burnett, former chairman, Peter Burnett, who at that time was the vice president of the HBPA. Together, we put together a program with Colonial that aimed at getting graded status at the Derby, also created a new race, the Turf Cup, et cetera.

To make a long story short, we were successful, because in 2006, the Derby attained Grade Two status, the Turf Cup got Grade Three status in 2007, and I think in the year 2008 or 2009, it was bumped up to a Grade Two. The Oaks was a Grade Three and it remained a Grade Three.

But here's the point. This is why we think this is so important. From 2005 when we started on
this program through 2013, the last time we raced
at Colonial Downs, the VHBPA spent $13.2 million to
obtain graded status and maintain it.

For example, in 2006 and 2007, we put up
$1 million for the Turf Cup and 850,000 for the
Derby. Colonial Downs at that point continued to
put in its 150,000, but that was the last time.

So over that period of time, we put in 13.2
million; Colonial Downs put in a total of 300,000.
So as they say, we had a lot of skin in the game
with regard to those graded races.

Now, in our view, it's important to maintain
the status if we expect that Virginia racing is
going to continue to survive, if not might blossom.

As I mentioned the last time, the rule that the
Graded Stakes Committee applies is if you do not
run the races for two consecutive years, you lose
the grading. So we didn't run them in 2014. If we
don't run them in 2015, that $13 million we spent,
bye bye. That's one important reason.

The other important reason is that, as I said
before, these are the most prestigious races in the
country, and I hope we can go forward with a lease
for Morven Park and develop it into a very nice
facility for turf racing.
In my opinion, having raced there many times in the past, I think it is better than Kentucky Downs and better than just about any other facility, except maybe Gold Cup in Virginia for races out on the grass.

But the point is, we want to come back with splash. We want to be able to promote racing next year at Morven Park, hopefully eight days next year, 14 days the following year, and our marquee events or our events that attract the most publicity would be these graded stakes races.

That's not all we'd run. Obviously, we'd run the four graded stakes races, but then we'd have the bread and butter races that make up the back bone of Virginia racing, and we would be, I think, somewhat disadvantaged if next year we put on those races, they didn't have the graded status.

It wouldn't have the same promotional cache that graded races have, and it probably wouldn't attract big shots, so to speak, to come from Kentucky or New York or Florida, so it's an important part of our promotional program.

Now, one other problem arose since our last session on July 1st. Colonial Downs, bless their heart, wrote a letter to the Maryland Jockey Club
claiming that it would infringe their trademark, because they claim to have trademarked the Virginia Derby, if the Maryland Jockey club were to run this.

Leaving aside Colonial Downs, again to be a lawyer, does not have a trademark on the Virginia Derby; they have a service mark. Just to bore you a little bit with lawyer talk, a trademark is like a brand name, Coca Cola. Coca Cola Bottling Company owns the trademark Coca Cola. That's their bottle of Coke.

A service mark is somewhat different. It's what's appended to some services offered by a company. For example, Colonial Plumbing, The Leak Fixer. The Leak Fixer would be the service mark.

So what Colonial really has is a registered service mark not on Derby but on Virginia Derby. They're claiming that Maryland would infringe their rights under federal law if they were to run the Derby, even though it's renamed. It will be renamed The Old Dominion Derby Presented By The Virginia Equine Alliance.

Now there are arguments about why they have some legal rights with regard to the Oaks and the Turf Cup, and the All Along are a little fuzzy. I
read the letter and I couldn't exactly figure out what they were saying. It's clear they have no service mark or trademark on any of those names.

But not to be outdone, I consulted with a Washington, D.C. firm that specializes in intellectual property law, trademarks, copyrights, et cetera. The name of the firm is Smith, Gambrell and Russell, and they're prepared to issue a written opinion to me after examining Mr. Weinberg's letter and after getting from me all of the background information.

They're prepared to issue an opinion saying it doesn't violate federal trademark or service mark law for the Maryland Jockey Club to run the races as The Old Dominion Derby Presented By The Virginia Equine Alliance, or in response to Jim Weinberg's point that, well, Old Dominion is kind of the same as Virginia.

I said, Well, fine. We'll call it The Commonwealth Derby. The lawyer said that's even better because we have four or five Commonwealtths here in the U.S. So it's The Commonwealth Derby Presented By Virginia Equine Alliance. That's their view.

Now, the Maryland Racing Commission, as I
understand it, said that, well, if it's okay with Virginia, it's okay with us, but the Maryland Jockey Club is a little leary. They don't want to invite litigation.

I was hoping that Jim Weinberg was going to be here today. I thought he was, to give us more of a detailed explanation of their position, because according to the Maryland Jockey Club people, Tim Ritvo, the number two or number three man over there, had a conversation with Jim Weinberg and told him that the Maryland Jockey Club had no intention whatsoever of keeping these races; that it was only doing it as a favor to keep its graded status, all three of the races, and that they return to Virginia next year or whenever Virginia had racing again, and again, that was in writing in an e-mail that was sent to me.

But that said, they have to know definitely one way or another within the next week, because their condition books have to be printed, their promotional materials have to get going, et cetera, because remember, we're talking about September.

I think they are a little leary about the possibilities of lawsuits. I have not discussed with them the legal opinion I got, since I got the
opinion after I talked to them. So that's kind of where we stand over all.

We would very much like to convince the Maryland Jockey Club to go ahead and run the races, and we would like your consent for us to utilize 800,000, as opposed to 450,000.

I think I covered all of the points that I wanted to make. That pretty much fills you in on what's going on since our July 1st discussions.

MR. REYNOLDS: So we're taking about trying to approve another $350,000 today on top of what we approved last month?

MR. PETRAMALO: Yes. That's correct. I don't mean in any way to be disrespectful, but I don't think that we need your approval to spend an additional 350,000, because remember, again, technically, this money comes from online wagering revenue that before July 1st was unrestricted. After July 1st, it's restricted to purses in Virginia, unless you direct otherwise. Just --

Commissioner Dawson.

MS. DAWSON: Yes. You mentioned that under the new agreement that your organization would get all of the revenue from the wagering.

MR. PETRAMALO: Yes. On the graded stakes
races.

MS. DAWSON: On the graded stakes races.

MR. PETRAMALO: Right. Right.

MS. DAWSON: Do you have any estimate of how much you expect that might be?

MR. PETRAMALO: No. No. I don't. I can probably ballpark it. Virginia Derby -- no, actually I can. I was going to say I can ballpark Virginia Derby day historically here.

The handle was usually around $3 million, not just on that one race, but the series of races that we also ran The Oaks on the same day, et cetera.

I could probably get out a paper and pencil and come up with a rough ballpark, but let me quickly add that it is seldom, if ever, the case that wagering on a particular race generates enough revenue to cover the purse, particularly if you're talking about a $400,000 purse.

But I think it was just a Maryland horsemen's way of saying, look, you know, we feel your pain. We appreciate the problem, here is the best we can do. You take all of the wagering, but we're not going to go further in the hole and increase our $4 million deficit.

MS. DAWSON: Okay.
MR. REYNOLDS: Dr. Steger.

MR. STEGER: I had the same question.

MR. VAN CLIEF: I'm trying to think how to phrase it. I would address this to Frank or any of the other stakeholders. Can you talk a little more -- obviously, we're dealing here whether we have the need, technically, to approve your expenditure or not. We seem to be in that position.

MR. PETRAMALO: Let's look at it this way. If you say it's not a good idea, we're not gonna say tough cookies, we're gonna do it. That's not gonna happen.

MR. VAN CLIEF: So whether we want to or not, we are in a position of having to assess whether the quid pro quo, if you will, is a good one.

MR. PETRAMALO: Yes.

MR. VAN CLIEF: I think the simple question is if we approved the 450. I personally thought it was a valid expenditure and a good idea at the last meeting.

Now that the equation has changed and we're being asked to consider whether the dispensation of $800,000 for these purses to go to Maryland is a good idea.
Can you spend just a little more time, and maybe any of the other stakeholders might want to address the long-term value.

Speaking of quid pro quo, can you quantify in a little bit more concrete way, I know it's difficult, the return of this investment going down the road in terms of the value of preserving your graded stakes status to future recruitment efforts for horses to future development of handle on these races and what it might mean to the Virginia industry, why it's worth $800,000 spent in Maryland at Laurel this year?

MR. PETRAMALO: Well, the easiest one to address is the handle. I think, as I just mentioned, when we ran the day of graded stakes races, whether it was Turf Cup day where we had at least two graded stakes or Derby day where we had two graded stakes, the handle that day, those days, was probably at least triple the normal handle. Those races generate a lot of interest, a lot of publicity and generally good field size, so the handle goes up, which means the revenue goes up.

Probably of equal importance is the graded stakes tend to attract the best and brightest among the horse population, because for grading purposes,
and remember, Derby is a three-year-old race, so we're talking about horses that are probably going to leave the racing career after the end of their three-year-old season.

For breeding purposes, it increases their value, whether you're talking about a filly running in The Oaks or a colt running in the Derby, if they can show that they won a graded stakes, a Grade Two stakes race.

They get nice black type in the book and it increases their value. It also generally attracts much more interest than a run-of-the-mill stakes race that's run for $400,000 and doesn't carry a grade.

For example, the Secretariat in Arlington that used to be part of a package that we had is a Grade One race, only $400,000 and it's on the turf. A lot of horses go there because of the prestige involved in that particular race. It's a Grade One race. They want to go there, even though we've paid more.

You know, we had $1 million. We're only Grade Two. They got 400,000, they're Grade One. That's a big deal race. That's kind of the, I know I don't have to explain it to you, Commissioner, but
that's kind of the way the horse business works, particularly on the breeding side.

MR. VAN CLIEF: Can you also as a follow-up question speak a little bit to the trickle down effect? We've had some questions here today, and I know there's some concern and some emotion around the issue of putting money, this much money at the top of the totem pole, so to speak, in races which are likely not gonna be populated by Virginia-breds.

Can you describe a little bit the indirect benefit and how that works to promote, sustain so forth, our industry here in months and years to come?

MR. PETRAMALO: Let me answer that in a somewhat oblique way.

MR. VAN CLIEF: It's sort of an oblique question.

MR. PETRAMALO: No, no. The question is fine. I'm prone to shaggy dog stories. When we were running at Colonial Downs, we always had three big days, the Derby day, the Turf Cup day, and our Virginia-bred Commonwealth day. Those three days generated a lot of publicity and a lot of interest in Virginia racing and Colonial Downs in
particular. Horsemen wanted to come to Virginia. We were on the map.

But from the standpoint of our industry, those three days were only lost leader days, marquee days. Everybody was interested. But in addition to those three days, we usually ran 25 or 30 days in addition at Colonial Downs for the rest of the industry, the Virginia, Maryland, West Virginia, Delaware, Pennsylvania people.

Big days, Bill Mott would come from New York, D.L. Romans would come from Kentucky, et cetera. Those guys would come for one day and go. We were willing to bite the bullet and pay for that because it put us on the map.

That's kind of the way we continue to look at the value of graded stakes races. It's not gonna do an awful lot in terms of immediately putting money in the pocket of our mid-Atlantic horsemen or our Virginia horsemen. They're gonna get their pocket money, their earnings from the other races that we run as part of an overall racing program that by the way has got four graded stakes.

We will probably run God knows how many bread and butter races, but we will have the four graded stakes and the Daily Racing Forum will pick it up
and we'll get some publicity on TVG, et cetera.

MR. VAN CLIEF: So you feel that the maintenance of these grades would be an important building block to a resurgent industry; is that fair to say?

MR. PETRAMALO: Yes. I think so.

MR. VAN CLIEF: If you lost the grades this year for any reason, and you know you're gonna lose them if you don't run, how difficult and how long might it take to reestablish any sort of graded stakes program?

MR. PETRAMALO: I don't have a lot of experience in that regard, but I can offer you some opinions.

We lost the graded status for the Turf Cup when we changed the conditions. That's another no-no. Used to be limited to three-year-olds; we opened it up. We lost the condition, but I think within a year, certainly no more than two years, I think, we got it back. But it wasn't a big deal.

I suspect that if we run in Maryland and keep the graded status, we're gonna have a job convincing the Graded Stakes Committee to say yes it's fine that you're transferring these to Morven Park, because the first thing they're gonna say is
Morven where?

It's a very new venue. It's gonna be very nice. It will be better than Kentucky Downs where they run graded stakes now.

But if we go to the Graded Stakes Committee with no grade, having lost it, we institute it next year at Morven Park, I would think we would have a tough road to hoe.

Remember, we've got the momentum built up. We spent $13 million at one point. We are giving away $1 million a race. There's no way in the world that we're gonna in the short-term or even in the medium term be able to offer purses like that for races at Morven Park.

So I think that while it's kind of on a continuum between easy and hard, we're probably closer to the hard side than we are to the easy, if we don't retain those graded stakes.

MR. REYNOLDS: There's always been a rub between basically this whole fight. We're not gonna have public comments. We will at some point.

MS. HARRELL: I just want to ask a question.

MR. REYNOLDS: At some point.

Obviously, a lot of this contract speak was this rub against fewer days, high-end, graded
purses and every day bread and butter racing, and
obviously, we're talking about $800,000. You said
you have $6 million available for purses.

MR. PETRAMALO: Approximately.

MR. REYNOLDS: Approximately.

MR. PETRAMALO: Yes.

MR. REYNOLDS: So do you feel like if you took
800,000 -- we've approved 450. We're talking about
an extra 350 and did this to maintain our graded
status, because I do think it's important to do
that, because as a racing fan first, I always loved
coming down to Colonial Downs, because I wanted to
be there and see the big races, you know, with the
bread and butter as well.

Are there enough funds available to be paying
-- Are we stealing from the poor and helping the
rich, so to speak, or is there enough money left
over for when we get up to Morven, or do you feel
like $6 million and hopefully building with the ADW
revenues continue to come in, that there's enough
money for the every day racing in Virginia folks
that are struggling to get some action?

MR. PETRAMALO: Oh, absolutely. Remember $5
million was enough in 2013 to run the full 25 days
at Colonial Downs, including the big deal stakes
races. I think we certainly would have enough money, bearing in mind that we're not going to immediately be able to put on a racing program that gives us 25 to 30 days of flat racing in Virginia. Next year, if we get anywhere from eight to 12, I think we'll be happy. The following year, I think we should ramp up to at least 14. So what we are looking at is relatively modest purse funds. We used to run at Colonial Downs very competitive purses at roughly $150,000 a day, exclusive of the stakes, so I'm talking bread and butter races. We could easily meet that and even go higher with a smaller racing program, and of course as it goes, we'd have to expend more money. Now let me quickly add that we are continuing to generate revenue from online wagering. I think as Dave Lermond pointed out at the last meeting, we are probably on track to generate about $70 million in ADW handle in Virginia for next year. I mean for this year, rather, calendar in 2015. At five percent, that's $3.5 million for the horsemen's purse account.

MR. REYNOLDS: Plus the VEA side.

MR. PETRAMALO: Well, VEA gets four percent.

MR. REYNOLDS: Right.
MR. PETRAMALO: They get 2.8 million.

MR. REYNOLDS: That's a whole other pot of money building up for purses?

MR. PETRAMALO: Yes. Yes. Yes. We are in the enviable position, as opposed to most horsemen's groups and racetracks of not really having a purse problem. Most horsemen are scratching around to find enough purse money; even our neighbors with slots, but that's not our problem.

Our problem right now is to find a venue to race and offer this money, and we think, you know, our venues would be enhanced if we can offer four graded stakes.

MS. DAWSON: I have a question.

MR. REYNOLDS: Yes, ma'am.

MS. DAWSON: Frank, in your remarks, you mentioned, I think I heard you correctly, that your organization has invested some 13 million --

MR. PETRAMALO: Yes.

MS. DAWSON: -- over the years in the stakes races.


MS. DAWSON: And that Colonial Downs has only invested around 300?

MR. PETRAMALO: 300,000. Yes. That's
correct.

MS. DAWSON: You mean to tell me that after that first stakes race was run, they didn't add anything to the purses after that at all?

MR. PETRAMALO: The last time Colonial Downs contributed any money at all was in 2006. We put up $1 million for the Derby. They put in 150,000, we put in 850,000. That's the last time they put in a dime for purses.

MS. DAWSON: You also gave us a little oversight, and the question of the trademark or service mark issue.

MR. PETRAMALO: Yes.

MS. DAWSON: And you seem to feel that based on your consulting with the other attorney that there is no case there?

MR. PETRAMALO: That's what -- let me quickly add I know almost nothing about trademarks and service marks. The lawyers that I talked to were very, very knowledgeable. They're convinced, one, that there's not much of a case there, and even if there was, there's no damage.

Because remember, the irony here is what we're doing, if we're successful in running someplace else is really preserving the graded status for
what Colonial claims is there's. Where's the damage? But that said, nobody except lawyers likes to get involved in litigation. We get paid, win or lose.

MS. DAWSON: Well, neither do we.

MR. REYNOLDS: We hire to keep losing. Other questions? Commissioner Miller?

MR. MILLER: I have no questions.

MR. REYNOLDS: I'll ask. Ma'am, you had a question. Go head.

MS. HARRELL: Christie Harrell. Just out of curiosity, suppose they do go ahead and follow through with their threat to file suit.

MR. PETRAMALO: Right.

MS. HARRELL: Who is it that is supposed to cover the legal fees associated with such litigation?

MR. PETRAMALO: It would all depend who they would sue. I would assume that they would sue the Maryland Jockey Club.

MS. HARRELL: Is there anything that would -- I mean prior to any moneys being allocated for races that might end up being problematic, instead of, you know, the ultimate goal being to carry it forward, those stakes so that, you know, we
maintain our status for when it comes back to Virginia, when the cost to try to retain it instead of just start all anew is comprised by potential litigation, because when you're talking about trademark, this is actually something I'm familiar with, especially with Colonial Downs, when you're talking about this type of case, it's extremely expensive.

MR. PETRAMALO: Yes.

MS. HARRELL: Very.

MR. PETRAMALO: No. I understand the legal cost. I guess your question is?

MS. HARRELL: Who is going to cover the cost?

MR. PETRAMALO: Well, I think what you're saying is if you do a cost-benefit analysis, is the $500,000 that you have to spend in attorney's fees, and assuming you're successful, is it worth it to keep the graded status?

MS. HARRELL: Right. Because you're talking about three different service marks or trademarks in question.

MR. PETRAMALO: There's only one. Colonial only has a service mark on the Virginia Derby. They have no, in my opinion, no statutory legal rights with regard to the other three.
But getting back to the initial question, the group that would be sued at the very least would be the Maryland Jockey Club. Now whether they would also sue the Virginia HBPA, who knows? Certainly have not been reluctant to make claims against us in the past, so I don't know.

MS. HARRELL: I would just strongly advise that be taken into consideration.

MR. PETRAMALO: I'm sure. I hope you listened carefully when I said that the Maryland Jockey Club is kind of on the fence here in terms of whether they want to go forward in light of the threat from Colonial.

MS. HARRELL: I understand.

MR. PETRAMALO: So I don't know how they're gonna resolve it.

MS. HARRELL: Thank you.

MR. PETRAMALO: Sure.

MR. REYNOLDS: All right.

MR. MILLER: I do have a question.

MR. REYNOLDS: Commissioner Miller.

MR. MILLER: When will you know from the Maryland Jockey Club whether they're willing to go forward?

MR. PETRAMALO: Well, Commissioner, I would
assume that's going to be within the next week. I will report back to them today or first thing in the morning about where we stand, and I'll give them the advantage of the legal advice that I gleaned, and it would be up to them.

I don't know. One of the problems is lawyers love to talk to other lawyers. I don't know who's representing them. In the past, Lane Kneedler from Reed Smith used to represent the Maryland Jockey Club with regard to its Virginia issues. I don't know whether Lane is still there.

MR. TOWELL: He's with the Attorney General's office now.

MR. PETRAMALO: Oh, is he? Okay. He's not in private practice. Thank you, Sam.

MR. REYNOLDS: Mr. Petramalo, earlier, you said, you know, obviously, you seek our permission, but you don't need our permission. What are you specifically asking us to do today? Is the reason you're asking us today is because you said earlier the Maryland Racing Commission says they are okay as long as Virginia Racing Commission is okay?

MR. PETRAMALO: Yes. That's correct.

MR. REYNOLDS: Okay. We made a motion last month, and I don't have that on the top of my head,
but obviously, it was the idea that it was gonna be $450,000. Did you need our permission last month about the dollar amount or did you need our permission last month just about just allowing it to go to Maryland in the first place?

MR. PETRAMALO: I don't think that -- again, respectfully, we needed your approval with regard to the dollar amount. I think we certainly did with regard to moving the race there, because we knew that the first thing the Maryland Racing Commission would say is what does the Virginia Racing Commission say.

MR. REYNOLDS: So if we made a motion today, we've already approved that the graded stakes would go to Maryland, so maybe what the motion would be today is to add another $350,000 to the previous motion?

I might ask Mr. Law what's the best way to ask the question to the Commission as far as approval or not?

MR. LAWS: Because the Commission acted at the July 1st meeting to approve the races, the graded stakes be held in Maryland and approved the $450,000, it doesn't need to take action again. It would be duplicative to that at this meeting, so I
Think the only question before the Commission would be whether or not to increase the total amount of money by $350,000.

MR. REYNOLDS: Even though you don't technically need our permission, you're asking for our blessing?

MR. PETRAMALO: Yes. Can't hurt.

MR. REYNOLDS: But what if we say no?

MR. PETRAMALO: Well, if you say no, I think we probably wouldn't go forward with it.

MR. REYNOLDS: Okay. Are there any other questions or comments from the Commission? Okay.

MS. DAWSON: I do have one.

MR. REYNOLDS: Yes.

MS. DAWSON: You mentioned that the amount is something that you can handle.

MR. PETRAMALO: Yes.

MS. DAWSON: It's not going to affect your ability in 2016 to come back from these purses that you have already planned?

MR. PETRAMALO: Not at all. No. Not in any substantial way. No. We -- Commissioner Dawson, we generate roughly $250,000 a month in ADW wagering, so in three months, we've got enough to pay the $800,000 without even touching what's in
the bank.

MS. DAWSON: And still meet your other obligations?

MR. PETRAMALO: Yes. Yes.

MR. REYNOLDS: Obviously, I make a comment that, you know, the $800,000 going out-of-state does make me very queasy. I know it's unpopular with many, well, some folks, maybe many folks.

As a racing fan, I think it's important to protect the graded status. If it wasn't for the purse that you built up, and I feel like now that we have a VEA four-and-a-half percent, whatever that is, plus you alls' -- I feel like there's plenty of money there if at the time we can get racing again, if we can take care of everyday bread and butter racing.

I think it's very important to try to keep these graded stakes races going. My gut instinct is that the Maryland Jockey Club is gonna get queasy and not do it. That's what I think is gonna happen. I hope that doesn't happen, but certainly, I'm in favor of trying to get you guys going. You all are the horse experts.

I find it interesting that you are fighting hard to protect the graded stakes races, protect
the high-high end racing, because as you say, you are an old labor lawyer protecting the every day people, so obviously, this is extremely important to you, and I'm sure you probably get a lot of grief from some other people that feel like we're just giving money to make the rich richer, so to speak, and I think to an extent that's probably true, but my vote is going to look at the bigger picture and look down the road a little bit, because as a fan, if we are fortunate enough to maintain that graded status, whether it's Morven, whether it's back with Colonial Downs one day, as a fan, I think that draws a lot of people, a lot of interest, and I think it really helps handle, so I'm certainly in favor of it.

MR. PETRAMALO: Thank you.

MR. REYNOLDS: I don't know if there are any other comments before we make a motion.

MR. VAN CLIEF: Mr. Chairman, I just offer some supportive commentary at this point. Like you, I understand the political question around the expenditure of these dollars out-of-state, but I think that Mr. Petramalo and his colleagues have made a strong case over the last month, and to me, the key question is, is this important to
rebuilding our industry here in Virginia, and I think Mr. Petramalo answered that question very positively.

So given the fact that projections would indicate we'll have ample money to run racing here at a level we can expect at least for the next couple of years, and given the importance of these graded stakes as a building block to our future, which will trickle down to all of the jobs and collateral industries and levels of horsemen that the industry will support, I am going to vote in favor as well.

MR. REYNOLDS: Okay. Any further comments?

MS. DAWSON: I'd just like to say that when I first heard about this issue, my inclination was the other, but after hearing your presentation and after hearing what the chairman and vice chairman just said, it kind of re-enforces my original instinct, which is to support the horse industry, the racing industry in Virginia, that's what we're all about here.

I know it may seem a little convoluted to some people who may not like, as the chairman says, seeing the big picture, but it is part of the big picture. Having the graded stakes races is really
important and it will be 2016 before we realize it, and I'd love to see them running here again.

MR. REYNOLDS: Mr. Steger.

MR. STEGER: I have no further comments.

MR. REYNOLDS: Mr. Miller.

MR. MILLER: Well, I guess I should explain my vote.

MR. REYNOLDS: You don't need to.

MR. MILLER: Okay. I'll try to take as little time as possible, but with all due respect to Frank and chairman and vice chairman and everyone else, you do have a strong case for going forward in Maryland, but to me, I think there's a stronger case, and that is to keep these funds in Virginia to focus more on building the racing industry within Virginia.

I've been doing some internet study of graded stake races to try to familiarize myself with the history and the background and trials and tribulations involved, and who the beneficiaries are of running these races.

There's no doubt that it behooves Virginia to try to get graded stake races, but I'm just not of the opinion that it's such an insurmountable task to come back, even if they're lost for not running
them this year.

If we focus as we should on building the appropriate Thoroughbred and Standardbred racing program in Virginia to the level that I think we should, and the level that should be the goal of everyone in this room, then we won't have any problem in the future getting our share of graded stake races or getting graded stake races identified as Grade One and Two in the future in Virginia.

This money could be better used to focus on those efforts and could be better used to try to pull together all the divergent interests in Virginia, including Colonial Downs in the future to focus more on building what we have through our anticipated programs at Morven Park, the Gold Cup, but also focus on getting that world class track in New Kent County up and running again.

It may take some extraordinary expenditures beyond what we think might be fair in the future to do that, but I think focusing our expenditures -- I don't call this extra money, but if we're so readily investing $800,000 or whatever it is in these races in Maryland, let's focus on taking that $800,000 and building the program here and focus on
trying to work out some way to breach the gap
between the horsemen and the track in Virginia, a
track we already have in Virginia, because we had a
program at Morven Park, we had a program at Gold
Cup, we had their Standardbred program at Oakridge,
and if we had racing in Colonial Downs, we could
have the future of racing in Virginia looking much
brighter.

That's why I just think if we preserve those
dollars toward our internal efforts, and even at
the risk of losing graded stakes, because I don't
share the belief that the loss of those graded
stakes would be that serious at this point compared
to all of the problems that we already have on the
table in Virginia. So that's why I would vote no.

MR. REYNOLDS: Okay. Thank you. I'm going
to -- I'd like to make the motion that we approve,
reaffirm our decision of last month to approve the
graded stakes going to Maryland and increasing that
purse allotment from $450,000 to $800,000.

MR. LAWS: Mr. Chairman, could I make one
comment?

MR. REYNOLDS: Please.

MR. LAWS: I think just from a legal
perspective, it would be preferable not to reaffirm
the previous motion and just make a plain motion to provide an additional 350,000.

MR. REYNOLDS: Okay. I'd like to make a motion that the Virginia Racing Commission approve an additional $350,000 to go towards the moneys for purses up in Maryland in addition to the $450,000 already approved, for a total of $800,000. That's my motion.

MR. VAN CLIEF: Second.

MR. STEGER: Second.

MR. REYNOLDS: Is there any more discussion?

NOTE: There is no response.

MR. REYNOLDS: All those in favor, say aye.

NOTE: Some Commissioners vote aye.

MR. REYNOLDS: All those opposed?

MR. MILLER: No.

MR. REYNOLDS: The Virginia Racing Commission approves it; four ayes and one no.

Okay. Thank you very much, Mr. Petramalo.

MR. PETRAMALO: Thank you.

MR. REYNOLDS: I feel like a lot of you all already made your public comments. Are there any folks who have not spoken publically today that would like to make a public comment? Yes, sir. Please identify yourself.
MR. BARONE: Yes. My name is Mike Barone. I'd just like to comment on that last resolution there. The fact that the three graded stakes races, the All Along you said the Maryland Jockey Club was gonna pay for that and the other three, it's my firm, strong belief that when you're getting 100 percent back on those races, the handle that you spoke of that was at Colonial Downs for those races is gonna be enhanced.

Having those races run at Laurel in the fall, the handle is gonna be even greater than it would have been had it been run at Colonial Downs.

I don't think you're gonna be out the 800,000. You're gonna get a lot back from the $800,000 investment, and I think it's a real wise decision.

MR. PETRAMALO: I'm prepared to contribute to the handle.

MR. REYNOLDS: Thank you very much.

MR. BARONE: Thank you.

MR. REYNOLDS: Are there any other comments?

NOTE: There is no response.

MR. REYNOLDS: Seeing none, I'd like to make a motion that we adjourn.

MR. VAN CLIEF: Second.

MR. REYNOLDS: All those in favor, say aye.
NOTE: The Commission votes aye.

MR. REYNOLDS: The Virginia Racing Commission is now adjourned. We'll see you again next month on September 9th at ten o'clock, location to be determined.

NOTE: This hearing is adjourned at 12:40 p.m.
CERTIFICATE OF COURT REPORTER

I, Sandra G. Spinner, hereby certify that having first been duly sworn, I was the Court Reporter at the meeting of the Virginia Racing Commission at the time of the hearing herein.

Further, that to the best of my ability, the foregoing transcript is a true and accurate record of the proceedings herein.

Given under my hand this 11th day of August, 2015.

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SANDRA G. SPINNER
COURT REPORTER