1 VIRGINIA RACING COMMISSION

2 June 12, 2018

3 STATE CORPORATION COMMISSION
TYLER BUILDING
4 COURTROOM A
1300 EAST MAIN STREET
5 RICHMOND, VA 23219

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7 Commencing at 10:00 a.m.

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13 COMMISSION MEMBERS:
D.G. Van Clief, Jr., Chairman
14 J. Sargeant Reynolds, Jr.
Stuart Siegel
15 I. Clinton Miller

16 COMMISSION STAFF:
David S. Lermond, Jr., Executive Secretary
17 Kimberly C. Mackey, Office Administrator
Rhonda Davis, Pari-Mutuel Wagering and Licensing
18 Coordinator

19 ATTORNEY GENERAL'S OFFICE:
J. Duncan Pitchford, Esquire
20

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CHAIRMAN VAN CLIEF: Good morning, Ladies and Gentlemen. It's ten o'clock. I'd like to call this meeting to order, and before we address our business agenda, I'd like to take a moment -- there's an obvious vacancy up here -- to remember Dr. Charles Steger.

When Dr. Steger died on May 6th, not only did this Commission lose an immensely valuable leader and contributor, but the Commonwealth of Virginia lost one of its foremost citizens.

Those of us up here who had an opportunity to work closely with Charles know that he was more than just an outstanding racing commissioner. Above all, I think I would look at him as a warm and caring, committed friend and our thoughts remain with his family.

If you would, let's stand and have a moment of silence out of respect for Dr. Steger. Thank you very much. Our thoughts remain with his family.

Also, in light of that vacancy up here, we do need to elect a new vice chairman, and without further adieu, I would open the floor for nominations.

COMMISSIONER REYNOLDS: Mr. Chairman, I'd like to nominate Commissioner Siegel to vice

chairmanship.

COMMISSIONER MILLER: I second.

CHAIRMAN VAN CLIEF: In view of the fact that Commissioner Siegel was the chairman when I was a rookie, I'll make that unanimous. All in favor, please signify by saying aye.

NOTE: The Commission votes aye.

CHAIRMAN VAN CLIEF: None opposed. The motion carries. Thank you for your service in advance, Mr. Vice Chairman. I plan to load as much on your shoulders as I possibly can as quickly as I can.

We also need to approve the April 18th minutes, and those are behind Tab 1 in each of your folders. Do we have a motion to approve?

COMMISSIONER SIEGEL: Motion to approve.

CHAIRMAN VAN CLIEF: We have a motion. Is there a second?

COMMISSIONER REYNOLDS: Second.

CHAIRMAN VAN CLIEF: Thank you. All in favor, signify by saying aye.

NOTE: The Commission votes aye.

CHAIRMAN VAN CLIEF: None opposed. Motion carries. The April 18th minutes are approved.

Now we go to the action items today, which include administrative hearings with regards to our

horsemen's organizations.

As I think probably everybody in the room will recall, both under the 1978 Interstate Act, which grants authority to the horsemen's representatives and under Virginia law, this Commission was required to recognize the horsemen's groups as well as the newly created at the time in 2015 not-for-profit industry stakeholder organization.

We attached three-year timelines to those recognitions at the time and that three years expires at the end of this month, so we want to get this addressed in this meeting.

We start with the application for the not-for-profit industry stakeholder, and Mr. Hannum, I believe you're going to do the honors in terms of presenting that application today.

MR. HANNUM: Great. Thank you. Just as a side note, I can't believe it has been three years since we did this. Mr. Chairman and Commissioners, thank you. For the record, I'm Jeb Hannum. I'm executive director of the Virginia Equine Alliance. Mr. Chairman, if I may, could I read a statement to get us going?

CHAIRMAN VAN CLIEF: Please do.

MR. HANNUM: Thank you. So on behalf of the

Virginia Equine Alliance, I'm petitioning for the recognition by the Virginia Racing Commission as the nonprofit industry stakeholder organization. I have attached a number of documents to support our petition which were forwarded to you by mail.

The VEA, working with its four member groups, is proud to point to the many initiatives we have undertaken since 2015. Working as a unified voice, the VEA has been able to help the industry grow following the aftermath of Colonial Downs' closure and the subsequent disruption to the entire racing and breeding industry.

A few highlights of programs and initiatives launched by the industry since 2015 include a day of flat racing in Great Meadow in Fauquier County in 2015. A four-day harness meet at Oak Ridge in Nelson County, also in 2015. The VEA helped build a new harness track out at the Shenandoah County fairgrounds completed in 2016, and the VEA now with the VHHA and the fair, we operate and promote the annual ten-day Shenandoah Downs harness meet at the fairgrounds.

We provided financial support to offset operational expenses at the Virginia Gold Cup. The VEA opened four satellite wagering facilities,

providing much-needed funds for purses and operational expenses. We provide financial support to the Virginia Point To Point Foundation and to each of the National Steeplechase Association's sanctioned Virginia Steeplechase meets.

We worked with our member groups in the Commission to develop the Virginia Horse Racing Industry Strategic Planning Committee Report, issued in December of 2017.

Most recently, the VEA partnered with Revolutionary Racing to help secure passage of House Bill 1609, enabling instant racing machines at Colonial Downs and at the SWFs.

We feel that the stability that the VEA brought to the industry played a part in attracting a new owner for Colonial Downs. Revolutionary Racing's purchase of the New Kent County track was dependent upon the passage of House Bill 1609, and now the Thoroughbred industry can return to its home for flat racing.

Were it not for the VEA, it's hard to know where the entire Virginia racing industry would be at this time. The VEA is unique among racing associations in the United States. As a nonprofit, all of the VEA's revenue supports the industry.

Furthermore, acting as the unified voice for the industry, the VEA can advocate for its members before the Legislature, the Governor and other government entities.

Now more than ever, the VEA is critical to the long-term success of the industry. The horsemen and breeders will need to be unified and forward thinking in order to benefit from added revenues expected from instant racing and potentially from other sources of gaming in the future.

The VEA is already planning ahead to consider investments and enhancements to its existing programs. For example, new revenue streams will enable the VEA to expand its Thoroughbred residency program, invest in improvements at Shenandoah Downs and to promote racing.

More importantly, the VEA will be poised to support and expand live racing at Colonial Downs, harness racing at Shenandoah Downs, steeplechase meets at the Gold Cup and other sanctioned steeplechase meets held throughout the state.

Virginia's horsemen and breeders have weathered significant adversity over the last few years, but the industry is now poised for real and sustained growth.

On behalf of the VEA board, we respectfully request formal recognition by the Commission to remain the nonprofit industry stakeholder organization. With the active assistance of the Commission, we believe the VEA can help Virginia's horsemen and breeders thrive. Thank you.

CHAIRMAN VAN CLIEF: Thank you, Mr. Hannum. One point I'd like to bring up is the question of the term. Again as we've already recognized, we implemented a three-year term which now comes to an end and thus this hearing.

My own opinion is that we should probably not just give carte blanche or an indefinite term going forward. I think it's healthy to require some form of review periodically, and so I have suggested that we do that.

Furthermore, we've asked Management to think about this a little bit in advance of this meeting, and Dave, could I call on you to talk about the recommendation that's before us right now in terms of how we address the term going forward.

MR. LERMOND: I think one of the reasons that the term was set three years ago was there were some things that I think Commissioner Miller had found in the bylaws which we wanted to make sure that had

been corrected.

Two or three months ago, I met with Jeb and other members of the groups, and we went through the transcripts and Commissioner Miller's comments and I can tell you that all of those issues have been corrected in the bylaws that are before you right now.

Duncan and I have also discussed this, and we thought that it would be appropriate for every two years that these groups would submit basically the same thing that they've submitted to us today and that staff would review and make any recommendations, if warranted, for the future.

CHAIRMAN VAN CLIEF: All right. I happen to concur with that periodic review requirement and I'd like throw the floor open to my fellow commissioners to discuss that and take the opportunity to ask any questions they might have either of staff or Mr. Hannum.

COMMISSIONER SIEGEL: I don't have any.

COMMISSIONER REYNOLDS: I'll just say you all have done a tremendous job under a lot of pressure and strain and I congratulate you on your last three years and where we are now and I plan on supporting reissuing, voting yes, on the application and moving

1 forward.
2 MR. HANNUM: Thank you.
3 CHAIRMAN VAN CLIEF: I also agree with
4 Commissioner Reynolds. I think that the structure
5 adopted by the VEA, their not-for-profit structure,
6 and the inclusive format which basically binds
7 together all elements of our horsemen's
8 organizations and the operational and at least up
9 until now the operational aspects of the industry
10 has worked extremely well.
11 I've said on lots of occasions that it's a
12 unique structure. I think that it presents a model
13 nationally of what can work under the most adverse
14 conditions. The VEA has done a tremendous job with
15 it's racetrack development, with OTB development and
16 with political development, so I'll also say well
17 done and I'm a staunch supporter of the VEA going
18 forward.
19 We've got a motion here that incorporates the
20 two-year review requirement. I'll read that and
21 I'll make this motion.
22 In accordance with Virginia code 59.1-369, I
23 move that we recognize the Virginia Equine Alliance
24 as the recognized nonprofit industry stakeholder
25 organization in the Commonwealth of Virginia.

1 As a condition of this recognition, the Virginia
2 Equine Alliance shall file with the executive
3 secretary on a biennial basis on or before July 1st
4 a current copy of its bylaws, its most recent
5 financial audit and a current listing of its
6 officers and directors.
7 So this is a little different than what we're
8 doing here today. We're not requiring a brand new
9 application in two years; simply a filing of the
10 documents that I just mentioned, which will go to
11 the executive secretary.
12 If there are no questions flowing out of that
13 process and no need for action, then we won't take
14 it -- we will simply move on.
15 So it's not a requirement for reapplication.
16 It's simply a requirement for a review at the end of
17 two years. I want to make there sure there are no
18 questions on that, including on the part of the VEA.
19 If you have any or any of the horsemen's groups,
20 please let us know, because we will be adopting the
21 same format as applies to the HBPA and VHHA.
22 MR. HANNUM: And that's July 1st? That's the --
23 CHAIRMAN VAN CLIEF: That's correct.
24 MR. HANNUM: Thank you.
25 CHAIRMAN VAN CLIEF: Any questions? If there

are none, then I'll make the motion. Is there a second?

COMMISSIONER SIEGEL: Second.

CHAIRMAN VAN CLIEF: Thank you. Any further discussion? All in favor, signify by saying aye.

NOTE: The Commission votes aye.

CHAIRMAN VAN CLIEF: It passes unanimously.

We'll go on to the horsemen's groups, and first is the Virginia Horsemen's Benevolent and Protective Association. Mr. Petramalo.

MR. PETRAMALO: Yes. Thank you, Mr. Chairman. Let me say on the outside I have a severe head cold and my hearing is somewhat limited, the right side is. It's very helpful around the house, but you speak into the microphone, I can hear you okay.

We petition, we being the Virginia HBPA, for continued recognition of our organization as the majority horsemen's group. We've been the de facto recognized majority horsemen's group since 1995, and with the change in law in 2015, we were formally recognized by this Commission.

In the last three years, we've been very active although we've had very little racing in the Commonwealth. But we have fully funded our Virginia stakes races that we've run in Maryland, mostly at

1 Laurel Raceway and occasionally at Pimlico.
2 We've funded purses to the tune of a half
3 million dollars a year at the steeplechase races at
4 Gold Cup, and most importantly and most recently,
5 we've funded the owners bonus program in the
6 Mid-Atlantic, whereby owners of Virginia-bred horses
7 that win in six states receive a 25 percent bonus.
8 We also have -- we are under contract with the
9 Gold Cup through 2019 to continue our support of
10 racing there.
11 Most recently, we joined with the VEA in
12 negotiating and signing a revenue sharing agreement
13 with the new owners of Colonial Downs. If you'd
14 like at some point, I can go through that and
15 explain the highlights.
16 We have currently about 500 members. The
17 breakdown is about 40 percent are Virginia
18 residents, 20 percent Maryland, and about ten
19 percent Pennsylvania, which is about the same as it
20 has been running over the past years.
21 Of course we look forward to reinstituting live
22 racing in Virginia at Colonial Downs next year.
23 I've submitted to the Commission our relevant
24 documents; namely, our contracts with the Gold Cup
25 and Revolutionary Racing, our corporate bylaws, our

membership list and our financial reports including our audited financial report for 2017 and our federal tax return.

With that, I would ask you to grant us continued recognition under the terms that you've just described, Mr. Chairman.

CHAIRMAN VAN CLIEF: Thank you very much. Any questions for Mr. Petramalo? If not, then I for one would also applaud the VHBPA for the work they've done in concert with the VEA, including providing loans to the VEA for operational purposes. They have been a staunch supporter and player in this alliance.

I'll make a motion as well. It will be similar to the VEA motion that we approve the VHBPA request. My motion is as follows.

In accordance with Virginia code 59.1-365, I move that we recognize the Virginia Horsemen's Benevolent and Protective Association as the majority horsemen's group for Thoroughbred owners and trainers in the Commonwealth of Virginia.

As a condition of this recognition, the Virginia Horsemen's Benevolent and Protective Association shall file with the executive secretary on a biennial basis on or before July 1st, a current copy

of its bylaws, it's most recent financial audit and a current listing of its officers and directors.

Do I have a second?

COMMISSIONER REYNOLDS: Second.

CHAIRMAN VAN CLIEF: Thank you. Any discussion? Any further questions? If none, all in favor signify by saying aye.

NOTE: The Commission votes aye.

CHAIRMAN VAN CLIEF: Any opposed? Thank you. Approval carries unanimously.

Next is the VHHA, and I believe Debbie Warnick is going to do the honors here.

MS. WARNICK: Thank you, Mr. Chairman. My name is Debbie Warnick and I am executive director of the Virginia Harness Horse Association.

Three years ago, the VHHA was recognized by the Racing Commission as the majority horsemen's group for Standardbred owners and trainers in Virginia. We are asking permission to continue that recognition and we have already submitted the appropriate paperwork.

We are part of the Virginia Equine Alliance and have worked with the organization to improve racing and breeding opportunities for Standardbred horsemen in Virginia. The VHHA and the VEA have worked

closely together to put on successful race meets in the past three years and we look forward to continuing to do that at Shenandoah Downs for many years. Thank you.

CHAIRMAN VAN CLIEF: Thank you. Any questions for Ms. Warnick? Also, I congratulate the VHHA. As an old Thoroughbred man myself, I never would have thought that Standardbreds would out run Thoroughbreds, but in watching the progress you made with that beautiful track in Woodstock, congratulations on all of that progress and your ten days of racing each fall. It's outstanding and a testament to the hard work and dedication of the VHHA, so I would support the application as well and I would make the following motion.

In accordance with Virginia code 59.1-365, I move that we recognize the Virginia Harness Horse Association as the majority horsemen's group for Standardbred owners and trainers in the Commonwealth of Virginia.

As a condition of this recognition, the Virginia Harness Horse Association shall file with the executive secretary on a biennial basis on or before July 1st, a current copy of its bylaws, its most recent financial audit, and a current listing of its

officers and directors. Do I have a second?

COMMISSIONER MILLER: Second.

CHAIRMAN VAN CLIEF: Thank you. Any questions, discussion? If none, please signify your approval by saying aye.

NOTE: The Commission votes aye.

CHAIRMAN VAN CLIEF: Any opposed? Motion carries unanimously. Thank you.

MS. WARNICK: Thank you.

CHAIRMAN VAN CLIEF: At this point, we have new business, and Mr. Hannum, I think the next two items are yours. One is a request for additional expenditure under the VEA budget and then your usual report on the VEA activities.

MR. HANNUM: Great. Thank you. So the first matter in the approved 2018 budget for the VEA, we had requested $100,000 to be paid back to the HBPA. This was to pay down a loan of $250,000 which the HBPA had made to the VEA back in 2015 to help us get going as a new entity. So that $100,000 is in our approved budget.

What we would like to do and my request is that the Commission give us the authority to pay an additional $150,000 so we could pay off that loan to the HBPA. As you alluded to, Mr. Chairman, that was

enormously helpful to the VEA back in 2015 to enable us to get up and running and we appreciate the HBPA's support. So we'd like to get that loan paid and off of our books.

Just as a side note, the VEA also when we built the track out at Shenandoah, we borrowed $300,000 from the harness horsemen to help fund that track because that was a significant cash outlay for us, and we've since paid that loan back in full, so we'd like to get settled up with the horsemen, which is always a good idea.

So I formally request if we could make an additional $150,000 payment. This is above and beyond what you have already approved in our budget.

COMMISSIONER MILLER: So moved.

COMMISSIONER VAN CLIEF: We have a motion. Is there a second?

COMMISSIONER REYNOLDS: Second.

CHAIRMAN VAN CLIEF: Second. Any further discussion? All those in favor, signify by saying aye.

NOTE: The Commission votes aye.

CHAIRMAN VAN CLIEF: Any opposed? Thank you. Motion passes.

MR. HANNUM: Great. Thank you. The next items,

I'll start with Shenandoah Downs. At the next Racing Commission meeting, which I believe will be in early July, the VEA with the VHHA and the Shenandoah County Agricultural Foundation will be submitting a formal license application for our fall meet. I mention that just simply so you know that that will be sent out to you in the next couple of weeks.

So that will be for a similar schedule of racing starting on September 15th and 16th. There will be ten days of pari-mutuel racing. There will be two additional days. There will be a qualifying day where there will be no betting, and then the stakes races will be run on the last Sunday of the meet where there will be no betting as well, but roughly the same schedule. So I look forward to talking about that in more detail at the next Commission meeting.

I'll move on unless there are any questions about that.

CHAIRMAN VAN CLIEF: Any questions? Thank you.

MR. HANNUM: Okay. Just to report on the OTBs, I'll start with activity over the weekend, which was a great weekend for flat racing in America. So it's always helpful to have a potential Triple Crown

winner going into the Belmont.

Our activity at the four OTBs was very strong. Jason Whitler, who is our OTBs operation director who is here today helped coordinate that. It's a lot of work to get the four OTBs up and ready and with all of the staffing that's involved.

Jason works with Darryl Wood, who is the head of our communications and marketing, and then Mary Calabrese. So it's a big effort to get everything ready for a weekend like that.

Just some quick numbers to put it in perspective. At Ponies & Pints, we did $116,000 in handle over the full weekend, so that's Friday, Saturday and Sunday. At Breakers, we did 176,000; Buckets, 221,000; and at Windmill, we did 124,000. So the total amount at the four sites over the full weekend was $638,649, so almost $700,000 in handle, so we were delighted with that.

One of the encouraging things we're seeing at the OTBs, especially on these big weekends, is we're seeing a lot of younger people come out and a lot of people that normally haven't had any exposure to racing or to wagering. So that's encouraging and part of what our goal has been, to introduce new people to racing, and we're seeing that in

1 particular at Ponies & Pints just down the road,
2 where they make a big effort to reach out to the 20
3 and 30-year-old age group. So that was a great
4 weekend.
5 Just by comparison, the handle is up five
6 percent compared to last year at the two Richmond
7 sites for the weekend, so we just looked at the
8 Richmond sites because Buckets and Windmill weren't
9 up and running at that time last year.
10 But comparing Ponies & Pints and Breakers 2017
11 to 2018, handle was up five percent this year just
12 on the two Richmond sites, so that was a good sign.
13 I'll just take a look at the numbers for the
14 four different sites. On an average handle per day,
15 Breakers is at about 27,000; Ponies & Pints a little
16 over 21,000; Buckets, almost 35,000; and the
17 Windmill, about 15,000 and that's per day handle.
18 One of the things that we track now that we're
19 coming into a second year is we're able to compare a
20 little bit better numbers on a monthly basis. I
21 think that's important. We're not fully comparing
22 apples and apples when we're looking at the 2018
23 with 2017, because we're still -- we've only had two
24 sites that have been up and running for any sort of
25 meaningful comparison.

So while we've seen a fall off in handle at the Richmond sites looking at the numbers this year compared to last year, which is about ten percent, we have seen the numbers at Ponies & Pints have been pretty stable. The most significant fall off has been at Breakers compared to last year, and I think really that comes down to Buckets opening in Chesapeake.

So we know for a fact because Breakers is relatively small and our tellers and OTB managers know the betters, that a lot of people have sort of switched to go down to Chesapeake. So people in the Richmond area have a couple of options now, and while things have fallen off at Breakers, Buckets has done extremely well and has surpassed expectations and Ponies is going to remain pretty steady.

So we're pleased about Buckets doing so well, but we'll monitor things in Richmond as we go forward.

Breakers has been a great site for us, but it is limited. It's small. It allows smoking, which appeals to some people but not to everybody. When Breakers was open in Richmond, that was really our first one. It was really, beyond buying a lottery

ticket, the only way to make a free bet. We're not surprised to see things fall off a little bit and it's certainly something we'll continue to monitor.

Over all, we are very pleased with how the four sites are doing. Windmill is very quiet during the week but does very well Friday, Saturday and Sunday compared to the other OTBs.

I'll pause there if there are any questions on the OTBs.

COMMISSIONER SIEGEL: Yes. I appreciate your providing these analyses. I think last year, we had asked you to do so and it's pretty informative.

Do you really believe that a significant amount of players are going to Chesapeake from Breakers? I mean they're 60 miles apart. Will people travel that far?

MR. HANNUM: Yes. That's what we're hearing. I can't name them by name, but we do have a pretty good sense of who the big betters are, and the staff are trained to identify the folks that come in and are betting the big amounts and so we have seen that where people have -- well, it's sort of the other way.

It's not so much that people in Richmond are going down to Chesapeake. It's the people that were

in Chesapeake that had been coming up to Richmond are now staying at home, which is nice for them.

Buckets, it's a much bigger space. I think probably just from a better's perspective probably a little more favorable experience than Breakers, just because of its size.

COMMISSIONER SIEGEL: It's a significant percentage at 13 plus percent. I'm curious. Do you also track the number of players?

MR. HANNUM: We don't track the number of people that come in on a daily basis, just because there's such a flow, but that's something we could do, Commissioner. We could do that and try it on a monthly basis.

COMMISSIONER SIEGEL: It would be nice to know whether you have new players or whether you have players that are betting more.

MR. HANNUM: Yes.

COMMISSIONER SIEGEL: I guess the plan is to grow players, so I think that would be at least meaningful to know.

MR. HANNUM: Yes. We can look at that.

COMMISSIONER SIEGEL: The dollars is most important, but it's nice to know whether you are attracting new players.

MR. HANNUM: So that's my OTB report and we will keep you posted as we go through the rest of the summer.

Debbie Easter couldn't be here today. She asked me just to give the Commission a quick update on the Certified program. So 665 horses have been entered into the program since July 1st, 2017, which I think is phenomenal.

I know personally that the most reliable source of information in the racing or breeding industry is from a blacksmith and my blacksmith, when he comes by to do our horses, he tells me what a wonderful program it has been, and I think its just had an effect of touching a lot of different horse people in a way that purses don't necessarily, because they're a little bit more focused on a certain group, but the Certified group has really impacted a lot of horse people throughout the whole state in a very positive way.

The important thing as we look ahead to getting racing up and running at Colonial is that we're particularly interested in keeping the process moving forward as quickly as possible regarding regulations for instant racing machines, because the Certified program will be funded in part by those

1 machines, as will other elements of the program.
2 So right now, the HBPA is supporting the
3 Certified program, so we want to get that
4 responsibility away from the HBPA and over to the
5 VEA and we've been relying on the historical horse
6 racing machines to do that.
7 Then a last note Debbie asked me to point out.
8 It looked like Virginia would have had over 100
9 horses bred this year, so I think there are some
10 positive signs for the breeding industry for the
11 state.
12 COMMISSIONER SIEGEL: Do you have the statistics
13 from last year to compare to that?
14 MR. HANNUM: In terms of the numbers of mares
15 bred?
16 COMMISSIONER SIEGEL: Yes.
17 MR. HANNUM: I don't right now, Commissioner, in
18 front of me. That's something we can provide in the
19 next meeting in greater detail. I'll make note of
20 that.
21 CHAIRMAN VAN CLIEF: That would be great. Also
22 a related question. I know several meetings ago, we
23 had some trainers who were able to attest to the
24 fact they had seen a market up-tick in their
25 business as a result of instituting the

Certification program. Has that continued? Are we continuing to see that robust inflow of horses at this point or has that leveled out?

MR. HANNUM: No. I think Debbie could give a better report on this than I can at the next meeting, but the number of horses that have come in is above where we thought it would be at this point, and the overwhelming response has been excellent and we continue to see horses come in.

I think with the news of Colonial, it has only focused more attention on the state and gotten more people excited about Virginia and being here, so the timing of it has really been perfect.

CHAIRMAN VAN CLIEF: The goal having been to develop additional revenues for Virginia operators, and I should be looking at Stephanie and asking her this question. Is that happening and is it working the way everybody hoped?

MS. NIXON: Oh, yes. So compared to this time last year, I have more horses than I've ever had. I just got done building a new barn for them, so it's continuing to improve.

I was with a bunch of folks this weekend watching the Belmont and we were all talking about getting together and getting some horses to be able

to run at Colonial next year, so folks are getting really excited, like Jeb said about the track coming back.

CHAIRMAN VAN CLIEF: Great. Thank you.

COMMISSIONER SIEGEL: Our mandate, of course, by enabling the legislation, is to promote the horse industry in the Commonwealth, and it would be nice with the return of racing to monitor more these statistics so that we can certainly show the Commonwealth what's happening.

I'm talking about all the way down from the breeders to the farriers to the suppliers of materials and feed and whatever. It would be nice to know how we are impacting that at least even before racing.

MS. NIXON: Absolutely.

CHAIRMAN VAN CLIEF: Maybe we're asking the VEA for an economic impact study at some point.

MR. HANNUM: Great. We can talk to aspects of that at the next meeting.

CHAIRMAN VAN CLIEF: Great. Thank you.

MR. HANNUM: Thank you.

CHAIRMAN VAN CLIEF: Very positive. Is there anything else? I might have one last question. This could be an opportune segue. Frank very kindly

offered earlier to share a few highlights of your agreement with the new owners at Colonial Downs. It seems to me that's related to the report Mr. Hannum just gave. Frank, can we take you up on that?

MR. PETRAMALO: Yes, please. Turn to Tab 3, if you would. That's the revenue sharing agreement. Let me just give you a bit of the background.

We negotiated this in I think the first week or two of April before the actual closing on the sale, and on our side of the table, we had Chris Legal [ph], who was the lawyer for the VEA. Joe Feraldo [ph] is a New York lawyer who was there on behalf of the VHHA and I was there for HBPA.

So the three lawyers pretty much took the lead in doing the talking, but we had our support team there. Stephanie was there for the HBPA. Debbie Warnick was there for harness horse folks. Brooke Royster was there for the breeders, and of course Debbie and Jeb and Bill Murrell [ph] were there for the VEA. I'm trying to think.

MR. HANNUM: Dr. Allison.

MR. PETRAMALO: Dr. Allison, Will Allison, was there for the Gold Cup. On the other side of the table, we had Larry Lucas and Fred Desalter [ph] and Mike Silveras [ph], the operational guys for

1 Revolutionary Racing, and then they had their team
2 of three lawyers from Chicago, Sid Fraylic [ph],
3 Kimberly Copp [ph], and I forget the name of the
4 third fellow. The proceedings went for two days.
5 Very professional and resulted in the revenue
6 sharing agreement that you see in front of you.
7 Now, it's kind of tough slogging because the
8 Chicago lawyers did the final drafting. I think
9 they've had too many mergers and acquisitions in
10 their background. But in any event, if you get
11 through it all, it makes imminent sense. It all
12 fits together. I was skeptical because my view is
13 less is more. Their view is not so much.
14 But in any event, the revenue sharing really has
15 three aspects to it. If you look toward our sources
16 of revenue here in the Commonwealth, the first one,
17 the most prominent one over here, has been online
18 wagering, the ADW. That has not changed one bit.
19 Going forward, the VEA will continue to receive
20 their four percent of Virginia handle from all four
21 online wagering companies going. The horsemen, the
22 harness horsemen and the Thoroughbred, will continue
23 to receive their five percent. No change there.
24 With regard to the satellite wagering
25 facilities. First of all with regard to the

horsemen, there's no change whatsoever. The harness horsemen and the Thoroughbred will continue to get their five to seven percent of the handle in Virginia.

Now, there's going to be a change in the near future. As soon as or shortly after Revolutionary Racing is licensed by the Commission to operate OTBs or SWFs, it will take over running the four OTBs that are now licensed to the Virginia Equine Alliance.

Going forward, they will open on their own the remaining six that are available under the statutory cap of ten.

Now in return for VEA giving up its operation, it will receive $2.5 million a year for five years from Revolutionary Racing. It's basically buying out their license to the four OTBs.

In addition, Revolutionary Racing will pay 50 percent of the undepreciated value of the assets in those four OTBs. Remember when we put together those OTBs, we put in construction, counters, TV sets, switches, et cetera. The VEA will get 50 percent of the undepreciated value that's remaining. So that's the OTB situation.

And then we get to the new element, and that's

historical horse racing. Let me explain this a little bit. The return on historical horse racing is often called the win. But for us in the context of simulcasting, it would be the take out or pari-mutuel wagering would be the take out.

With regard to historical horse racing, 93.6 percent goes to the players, which leaves a 6.4 percent take out or win. But that gets further reduced because under statute, the state and the localities get one and a quarter percent. So you're basically down to the operator of these machines getting about four percent of the, quote, handle.

Now, with regard to that, the VEA will receive a sliding six to seven percent of the win, the take out. It's six percent for the first $60 million and then seven percent for everything above $60 million.

Now, if you're asking what that means in dollars, we can only give you projections, but the VEA's folks have projected based on the number of machines, which may quite vary, have projected over the first four or five years of operation anywhere from six million to $22 million annually to the VEA, and that of course then is solely up to the VEA and its governing board to allocate among the industry with both, as Jeb mentioned, the owners bonus

program, purses and things of that sort.

That pretty much gives you an outline of the economics of the deal. There are a number of other interesting aspects to it, but that, I think, covers the main focus of our negotiations over the month or two leading to the agreement.

By the way, I don't know whether I mentioned it or not. It's a ten-year agreement.

CHAIRMAN VAN CLIEF: Thank you very much. Any questions about the agreement for Mr. Petramalo? Thank you.

At this point, we have an opportunity for public comment. Is there anybody who would like to offer suggestions, criticisms or make a statement? Okay. If not, then we also have an open session for commissioners' comments. I'll start to my left.

COMMISSIONER REYNOLDS: As I said before, I want to congratulate all of the stakeholders on all of their hard work. It has been a tough three years and nobody knows that more than I do, sitting up here as Chairman when Rome started burning.

So I appreciate you all putting out the fire and moving us in what I think is a great direction. So congratulations. I look forward to working with you all as we continue on down the road.

CHAIRMAN VAN CLIEF: Thank you.

COMMISSIONER SIEGEL: I would agree with Sarge. This is the beginning of an exciting time for Virginia racing and we look forward to seeing all of this develop in racing next year.

COMMISSIONER MILLER: I don't have anything.

CHAIRMAN VAN CLIEF: I agree with both Commissioners Reynolds and Siegel. I'd like to make one comment. We haven't -- I think the 800 pound gorilla in the room is the regulatory process, our HHR regs, which we haven't addressed, and obviously is conspicuous by its absence on our agenda today.

I would like to just make a comment about it and let you know that the process is ongoing. Our staff are hard at work in concert with the AG's office and the Governor's office. We'd like to think that our process would be just as the Governor requested it to be in his executive directive; thorough-going, transparent, inclusive and sensitive to the needs of the new operators as well as the citizens of the Commonwealth.

We plan to issue regs that generate optimum benefits for the entire state, and at this point, the process is just a little bit slower than we had hoped it would be.

1 So we're looking forward to a wider circulation
2 of draft regulations in the near future and we look
3 forward to input when that is accomplished.
4 We're also looking forward to another update at
5 the latest at our July 10th meeting. So hopefully,
6 we'll be making progress between now and then.
7 We do need a closed session today. The
8 Commission has been named in a suit which has to do
9 with one of our earlier stewards' rulings, so can I
10 call on Mr. Pitchford to take us into the closed
11 session and help us with the proper resolution.
12 MR. PITCHFORD: Thank you, Mr. Chairman. I
13 would ask that someone make the following motion.
14 That in accordance with the provisions of
15 Section 2.2-3711(a)(8) of the Code of Virginia, I
16 move the Commission go into closed session for the
17 purposes of consultation with legal counsel and
18 briefing by staff members pertaining to actual or
19 probable litigation. Such consultation or briefing
20 in open meeting would adversely affect the
21 negotiating or litigating posture of the public
22 body. Commissioners will only ask counsel questions
23 and will not engage in deliberations or any other
24 activities.
25 COMMISSIONER MILLER: So moved.

COMMISSIONER SIEGEL: Second.

CHAIRMAN VAN CLIEF: All in favor.

NOTE: The Commission votes aye.

CHAIRMAN VAN CLIEF: Any opposed? Before we walk out of the room, as you may have seen or if you've got a copy, there's nothing further on the agenda that we need to address from a business, either old or new, standpoint. I don't plan that we'll be taking up any further business.

So you're welcome to stay if you would like to, but there shouldn't be anything else of interest. When we walk back in, we'll simply plan to adjourn.

Thank you all very much for being here this morning and thank you for your reports.

MR. HANNUM: Thank you.

NOTE: The hearing breaks for a closed session at 10:51 a.m.; thereafter, the hearing resumes at 11:31 a.m. as follows:

CHAIRMAN VAN CLIEF: Counsel, would you help us with the proper wording to adjourn the closed session and go back into regular session.

MR. PITCHFORD: Thank you, Mr. Chairman. I would ask one of the commissioners to make the following motion.

Whereas the Virginia Racing Commission has

1 convened a closed meeting on this date pursuant to
2 an affirmative recorded vote in accordance with the
3 provisions of the Virginia Freedom of Information
4 Act, and whereas Section 2.2-3712 of the code of
5 Virginia requires a certification by this Commission
6 that such closed meeting was conducted in conformity
7 with Virginia law, now therefore be it resolved that
8 the Virginia Racing Commission certifies that to the
9 best of each members' knowledge, only public
10 business matters lawfully exempted from open meeting
11 requirements under the Virginia Freedom of
12 Information Act, and only such public business
13 matters as were identified in the motion convening
14 the closed meeting were heard, discussed or
15 considered by the Commission in the closed meeting.
16 COMMISSIONER MILLER: So moved.
17 CHAIRMAN VAN CLIEF: Second.
18 COMMISSIONER REYNOLDS: Second.
19 MR. PITCHFORD: Mr. Chairman, there will be a
20 need to do a roll call.
21 CHAIRMAN VAN CLIEF: Commissioner Reynolds.
22 COMMISSIONER REYNOLDS: Yes.
23 CHAIRMAN VAN CLIEF: Commissioner Siegel.
24 COMMISSIONER SIEGEL: Yes.
25 CHAIRMAN VAN CLIEF: Commissioner Miller.

COMMISSIONER MILLER: Yes.

CHAIRMAN VAN CLIEF: I vote aye as well. The motion passes unanimously. We are back in the regular session. I now need a motion to adjourn.

COMMISSIONER REYNOLDS: So moved.

COMMISSIONER SIEGEL: Second.

CHAIRMAN VAN CLIEF: Our next meeting is July 10th. Dave, are we in this courtroom? We're in this building.

MR. LERMOND: Courtroom B.

CHAIRMAN VAN CLIEF: Courtroom B. Still in Courtroom B at ten o'clock a.m. Still on July 10th. We stand adjourned. Thank you all very much.

NOTE: The hearing is adjourned at 11:35 a.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 24th day of June, 2018.

Sandra G. Spinner

SANDRA G. SPINNER
COURT REPORTER