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VIRGINIA RACING COMMISSION

COLONIAL DOWNS
Ballroom, 4th Floor
10515 COLONIAL DOWNS PARKWAY
NEW KENT, VA 23124

wednesday, April 6, 2022 at 11:00 a.m.

COMMISSION MEMBERS:

J. Sargeant Reynolds, Jr., Chairman
Stuart Siegel, Vice Chairman
John F. Tanner, Jr.
Marsha K. Hudgins
Stephanie B. Nixon

COMMISSION STAFF:

David S. Lermond, Jr., Executive Secretary
Kimberly C. Mackey, Director of Operations
Dr. Ada Caruthers, Equine Medical Director
Rhonda Davis, Director of Pari-Mutuels and Licensing

ATTORNEY GENERAL'S OFFICE:

Elizabeth B. Myers, Esquire

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1 CHAIRMAN REYNOLDS: Good morning. Thank you
2 for coming to today's Virginia Racing Commission
3 meeting. Before I start, I would note that all of
4 the Commissioners are here.

5 Before we get started, I want to thank the
6 Chief Executive Officer from Churchill Downs, Bill
7 Carstanjen, for coming. I hope I pronounced that
8 correctly. Thank you and we'll hear from him after
9 we get our regular order of business done and we
10 will hear from all of the stakeholders, the
11 horsemen's group, Colonial Downs. I think they're
12 going to describe for the benefit of the Secretary
13 of Agriculture and Forestry kind of what it is we
14 all do here.

15 Then after that, we'll turn it over to Bill to
16 present on behalf of Churchill Downs and then after
17 that, we've inserted a public comment question
18 period where if anybody from the public would like
19 to make a comment or have a few questions for Bill
20 after his presentation, we'll allow some time for
21 that.

22 Before I get started, I want to recognize the
23 Secretary of Agriculture and Forestry, Matt Lohr.
24 Matt, do you want to get up and introduce yourself,
25 please, and maybe introduce some of your staff that

1 may have come with you today?

2 MR. LOHR: Good morning. Thank you so much
3 for that intro. My name is Matt Lohr. I have the
4 great honor to serve as the Secretary of
5 Agriculture and Forestry here in the Commonwealth
6 of Virginia. I think we're on week number ten, so
7 it's nice to have our legislature body finish up
8 with session and have a chance to start getting out
9 of Richmond a little bit and I'm really honored to
10 be here today and learn more about the Racing
11 Commission.

12 I certainly thank David and his staff. We've
13 had a chance to go over to the office and meet with
14 David several times and meet with his staff. It's
15 great to be here to see all of you as well.

16 As Secretary of Ag and Forestry, I oversee
17 three agencies; one, the Virginia Department of
18 Agriculture and Consumer Services, the Virginia
19 Department of Forestry and Virginia Racing
20 Commission.

21 This is an area that I've really not had a lot
22 of extensive knowledge with in the past, although I
23 love horses, but the actual workings of the Racing
24 Commission, so I'm really here to learn and work
25 more closely with you as Commissioners and being

1 able to really understand how we as the
2 Commonwealth can support you in what you do.
3 Certainly excited. Jill, I have you with us today
4 and enjoyed meeting with you and the Governor a few
5 weeks ago and there are exciting changes ahead as
6 well.

7 I really see a lot of great opportunities and
8 I'm excited about the direction that we're in and
9 it's an honor to be Secretary and to be here today
10 and to be able to engage with you. I've got my
11 Deputy Secretary, Beth Green, over here in the
12 corner. She has come along as well, so we're
13 digging in and learning every day.

14 I will mention that the Governor's wife, First
15 Lady Suzanne Youngkin, is extremely interested in
16 horses. We meet with her on a regular basis and
17 she's always looking at ways to engage with the
18 industry, so I think you'll see her out here a lot
19 in the future.

20 So just note that you've found a strong
21 advocate not only in your Secretary, but also with
22 the Governor's office as well. Thank you for
23 letting me be here and I look forward to meeting
24 you.

25 CHAIRMAN REYNOLDS: Thank you, Mr. Secretary.

1 I guess I called the meeting to order. The first
2 item on the agenda is the approval of the minutes
3 from our last meeting, which was held on
4 December 15, 2021.

5 COMMISSIONER TANNER: I move approval.

6 COMMISSIONER NIXON: Second.

7 CHAIRMAN REYNOLDS: All those in favor, say
8 aye.

9 NOTE: The Commission votes aye.

10 CHAIRMAN REYNOLDS: The motion carries
11 unanimously. Thank you.

12 The next order of business is the public
13 comment period. This is an opportunity for members
14 of the public to get up. You have five minutes
15 maximum if you would like to speak on any issue.
16 we'll be talking about the Churchill stuff later,
17 but if you want to talk now, that's fine. Anybody
18 from the public have a comment? Please state your
19 name, please, for the record.

20 DELEGATE WYATT: Good morning. I'm Delegate
21 Scott Wyatt. I represent the 97th District in the
22 Virginia House of Delegates, being New Kent County,
23 Hanover County and King William County.

24 I want to thank you for hosting the meeting
25 and I'm looking forward to hearing more and joining

1 the Secretary today and members of the
2 administration, and like them, when Bill Carstanjen
3 and Bill Mudd came to the legislative body a few
4 weeks ago to meet with the Governor and members of
5 the General Assembly, I am very excited about the
6 announcement today.

7 I'll tell you my wife and daughters are very
8 novice, but we live here and claim Virginia and the
9 Commonwealth's Secretariat to be the greatest horse
10 to ever race in Thoroughbred horse racing and it is
11 a great market and a great venue to try to tap into
12 some of those resources.

13 My wife and family and kids over the years
14 have visited Churchill Downs on numerous occasions
15 and it is really a family experience; the museum,
16 the gift shop and everything they had to offer
17 there. We really look forward to growing the
18 industry in Virginia and we all in Virginia and
19 every citizen should be very excited on what we're
20 about to hear today.

21 So I want to thank you for all of the hard
22 work you all do. I want to thank you, Secretary,
23 members of the administration that showed up and I
24 know the citizens in my district and across the
25 Commonwealth look forward to what they will hear

1 today. So thank you all.

2 CHAIRMAN REYNOLDS: Thank you. Are there any
3 other comments from the public? All right.
4 Hearing none, you'll get another bite at the apple
5 a little bit further into the meeting.

6 The next order of business is to request for
7 approval of a limited license for the Virginia Gold
8 Cup Association for 2022, and that's behind Tab Two
9 for the Commissioners. Dave, I'll defer to you to
10 talk about their application.

11 MR. LERMOND: Thank you, Mr. Chairman. On
12 March 24, 2022, the Virginia Gold Cup Association
13 submitted their application for a limited license
14 to conduct two days of horse racing with
15 pari-mutuel wagering. Those two days being May 7th
16 and October 22nd of 2022.

17 The application contained all of the other
18 required information. Staff has reviewed it. I
19 don't have any issues with it at all. Dr. Allison
20 is here. Before I seek a motion, we could ask him
21 if he wants to make any comments. If not, I could
22 move forward with seeking a motion.

23 CHAIRMAN REYNOLDS: Dr. Allison, do you have
24 anything?

25 DR. ALLISON: I presented all of the

1 information.

2 CHAIRMAN REYNOLDS: Okay. Yes, you have.
3 Thank you. Are there any comments or questions
4 from my fellow Commissioners before we seek the
5 motion? Hearing none, Mr. Lermond.

6 MR. LERMOND: Okay. Mr. Chairman, I seek a
7 motion for approval of the limited license for 2022
8 as requested by the Virginia Gold Cup Association.
9 I would also ask that your approval contain the two
10 following conditions.

11 One is horse racing with pari-mutuel wagering
12 shall be operated in accordance with all
13 representations, plans, specifications as submitted
14 in the application and also as described in the
15 Virginia Racing Commission's April 6, 2022 meeting,
16 and that the licensee shall not deviate materially
17 from these representations, plans and
18 specifications without prior consent of the
19 Commission or its Executive Secretary; and
20 secondly, the horse racing with pari-mutuel
21 wagering shall be operated in accordance with all
22 applicable state and federal statutes and
23 regulations, the regulations of the Commission
24 and all local ordinances.

25 CHAIRMAN REYNOLDS: So I will make a motion to

1 approve the application.

2 VICE CHAIRMAN SIEGEL: Second.

3 CHAIRMAN REYNOLDS: I have a second. All
4 those in favor, say aye.

5 NOTE: The Commission votes aye.

6 CHAIRMAN REYNOLDS: All those opposed?
7 Hearing none, the motion passes unanimously. Thank
8 you, Dave.

9 MR. LERMOND: Thank you.

10 CHAIRMAN REYNOLDS: Next on the list is a
11 request for approval of racing officials of the
12 Virginia Gold Cup races. You'll find that list
13 behind that on Tab Three, and Dave, I'll let you
14 comment on that as well.

15 In the motion, we would like Dave to give the
16 authority to make last minute changes as necessary,
17 as maybe an official or two might not be able to do
18 it. I would like in the motion for Dave to have
19 that latitude.

20 MR. LERMOND: Thank you, Mr. Chairman. In
21 conjunction with the application that was submitted
22 by the Gold Cup, they're also required to submit a
23 list of racing officials. These would be for both
24 dates. Staff has reviewed the officials.

25 I would make one comment that the stewards

1 that are employed by us, Mr. A.A. Zimmerman, that's
2 Tad Zimmerman, is a regular steward for Colonial
3 Downs and has been for the last three years. He
4 actually -- his background was actually
5 steeplechase racing is where I met him working at
6 the Gold Cup.

7 The other two stewards that we have have
8 conflicts those days, but I was very fortunate to
9 get Mr. Larry Curtis and Mr. Beale Payne -- most
10 people know Beale as Woodberry -- to be the other
11 two stewards; all three are senior NSA stewards.

12 When I spoke to Bill Gallow from the NSA and
13 told him the three stewards that I have lined up,
14 he said that's as strong of a steward stand as you
15 could possibly have. We absolutely want to have
16 very good stewards there, especially because of the
17 pari-mutuel wagering aspect.

18 The rest of the racing officials listed are
19 almost all people that have returned year after
20 year. Again, these people are all well-qualified,
21 knowledgeable and very capable of handling the
22 duties that they will perform on race day.

23 As you said, Sarge, I would seek the motion to
24 approve this list for 2022 and ask that you give me
25 the authority to approve any last minute changes

1 that could arise.

2 CHAIRMAN REYNOLDS: Do I hear a motion to
3 approve?

4 VICE CHAIRMAN SIEGEL: So moved.

5 CHAIRMAN REYNOLDS: Do I hear a second?

6 COMMISSIONER HUDGINS: Second.

7 CHAIRMAN REYNOLDS: Second. All those in
8 favor, say aye.

9 NOTE: The Commission votes aye.

10 CHAIRMAN REYNOLDS: Any opposed? Hearing
11 none, the motion passes unanimously. Thank you,
12 Dave.

13 MR. LERMOND: Thank you, sir.

14 CHAIRMAN REYNOLDS: Next on the agenda is
15 request for approval of the VHBPA's benevolence
16 budget for 2022. You can find that behind Tab Four
17 and I'll ask Mr. Petramalo to present.

18 MR. PETRAMALO: Thank you, Mr. Chairman.
19 we've submitted the usual sort of budget for our
20 benevolence program on the backside. The main
21 difference is our meet this year is longer, plus
22 we're bringing back two training programs that we
23 used to run at the old Colonial.

24 Given the shortage of staff, we think it's
25 very important to bring new people into the

1 industry, as well as upgrade the skills of those
2 who are there. So we'll have what we call a Hot
3 walker program. It's Groom Elite 99. It's a
4 three-day program that we will run before the start
5 of the meet. We are recruiting through the local
6 high schools as well as the employment services.
7 This is the entry level job in the business.

8 The other program that we have is Groom Elite
9 101. That's a six-week program that runs on the
10 dark days. It'll be Thursday and Friday and it's a
11 combination of classroom training and related
12 instruction in the barns.

13 I think one of our Commissioners used to teach
14 in that program, if I'm not mistaken.

15 COMMISSIONER NIXON: It wasn't me.

16 MR. PETRAMALO: It was Commissioner Nixon.
17 It's a six-week program and it's by far one of the
18 best programs I've ever seen. So those are two new
19 wrinkles.

20 Plus, we will have an intern working with us
21 this summer. He's graduating from college and will
22 help us with the administration and running of the
23 training programs as well as setting up a
24 recreational program; soccer, baseball, things of
25 that sort. So that's new. Other than that, what

1 we will do this year is pretty much what we've done
2 last year.

3 CHAIRMAN REYNOLDS: Okay. Thank you very
4 much. I'll ask the Commissioners if they have any
5 questions.

6 VICE CHAIRMAN SIEGEL: Frank, the number again
7 for the medical and dental, almost three times last
8 year.

9 MR. PETRAMALO: Yes. I'm glad you asked about
10 that. Last year, we went over budget because of
11 all the dental care that we provided. Now, this
12 wasn't cosmetic dentistry. I was totally
13 unprepared for the onslaught.

14 We set up an arrangement with Dr. Sam English,
15 who has got a number of offices in the area and he
16 provided wonderful service, but one comment that he
17 made to me, he said some of the people that were
18 seen, this is their first visit to a dentist. So
19 there was a good bit of work that needed to be done
20 and I think there was something like 35 or 36
21 separate patients that Dr. English and his staff --

22 VICE CHAIRMAN SIEGEL: Don't these individuals
23 have opportunities to get dental care at other
24 racetracks when they travel?

25 MR. PETRAMALO: I know of other racetracks

1 where the HBPA's provide dental services. I'm
2 thinking Canterbury Park. I believe they have a
3 dentist come twice a week and I think at Churchill
4 Downs the HBPA there also has something like that.
5 So it's hit and miss. I don't know what the other
6 tracks in the Mid-Atlantic are like.

7 VICE CHAIRMAN SIEGEL: I think it's good that
8 we provide the service. Just seeing a number so
9 high, I just wondered why others aren't taking part
10 in that bill.

11 MR. PETRAMALO: You can rest assured that I
12 carefully go over the bills. In an earlier life, I
13 spent a lot of time in federal court litigating
14 dental fraud cases. I'm very familiar with dental
15 treatment and billing practices.

16 VICE CHAIRMAN SIEGEL: Okay.

17 CHAIRMAN REYNOLDS: Are there other questions?
18 I'll ask a couple. Obviously, the washers and
19 dryers is new. Is that being added? Obviously,
20 you need them. There's more money now because the
21 breakage keeps going up.

22 MR. PETRAMALO: Yes.

23 CHAIRMAN REYNOLDS: So there are opportunities
24 to do other things you haven't had a chance to do?

25 MR. PETRAMALO: Yes. The breakage has

1 expanded exponentially because of the HHR machines
2 which generate breakage.

3 CHAIRMAN REYNOLDS: Right. Then my last
4 question is I notice things have gone up and
5 obviously with inflation and gas prices and food
6 prices, it certainly makes sense. One that has
7 gone up a lot, and I'm all for it, but you're
8 really increasing your groom awards a fair amount.

9 MR. PETRAMALO: Yes.

10 CHAIRMAN REYNOLDS: I know we have more race
11 days, but it seems proportionately a bit of a jump.

12 MR. PETRAMALO: It's doubling. We used to
13 give out \$25 per race. My board voted to double
14 that to \$50. So that's an increase.

15 CHAIRMAN REYNOLDS: Great.

16 VICE CHAIRMAN SIEGEL: With regard to the
17 breakage, you pointed out the HHR machines cause
18 that number to rise quite a bit. This isn't the
19 time really necessarily to get into the minutia of
20 all of this, but sometime here in the year, we
21 ought to talk more about how we use this breakage
22 and how much of it we actually use and how that's
23 divided. I know that's a 70/30 split, I believe.

24 MR. PETRAMALO: Yes.

25 VICE CHAIRMAN SIEGEL: Anyway, so during the

1 year, I think we ought to meet and talk about that
2 a little bit.

3 MR. PETRAMALO: Fine.

4 CHAIRMAN REYNOLDS: Are there any other
5 questions or comments from the Commissioners? If
6 not, I'd like to entertain a motion for approval of
7 the VHBPA's benevolence budget for 2022.

8 COMMISSIONER HUDGINS: So moved.

9 CHAIRMAN REYNOLDS: Do I hear a second?

10 COMMISSIONER NIXON: Second.

11 CHAIRMAN REYNOLDS: Hearing a motion and a
12 second, all those in favor, say aye.

13 NOTE: The Commission votes aye.

14 CHAIRMAN REYNOLDS: Any opposed? Hearing
15 none, the motion passes unanimously. Thank you,
16 Frank.

17 MR. PETRAMALO: Thank you.

18 CHAIRMAN REYNOLDS: Next on the list is a
19 request for approval of VHBPA withdrawal of
20 administrative costs from the horsemen's purse
21 account for 2022. This is kind of a new item for
22 me, so Frank, if you would explain how all that
23 works, please.

24 MR. PETRAMALO: Yes. It's a new item for my
25 organization also. The statute since day one has

1 provided that the horsemen's organization can
2 withdraw up to two percent of the purse account to
3 cover the cost of running its operation. We have
4 never done that in the past. We usually had enough
5 money to run our office.

6 It runs between 200 and 250,000 a year, but
7 now things are getting a bit tighter, so we thought
8 it appropriate at this point to use some of the
9 purse money, which we have a lot, to defray the
10 costs of our administration.

11 Now, of the budget you see, the bulk of it
12 goes to three places. One, we have a one-person
13 staff that we pay. You can guess who the
14 one-person staff is. We also have a CPA firm that
15 we retain to not only do our tax returns, but more
16 importantly, to do the financial audit that's
17 required by the statute and presented to you.

18 CHAIRMAN REYNOLDS: I thought you were a
19 volunteer.

20 MR. PETRAMALO: Well, it only seems that way.

21 CHAIRMAN REYNOLDS: Your per hour rate is
22 pretty high. Anyway, go ahead.

23 MR. PETRAMALO: It's the best job in the
24 world. We have a governmental relations slash
25 lobbying team that we employ. That's the bulk of

1 the budget.

2 CHAIRMAN REYNOLDS: Okay. Thank you.
3 Commissioners, do you all have any questions or
4 comments? Hearing none, your presentation answered
5 my couple of questions.

6 So hearing no questions from the
7 Commissioners, I would seek a motion for approval
8 of the VHBPA's withdrawal of the administrative
9 costs from the horsemen's purse account for 2022.
10 Do I hear a motion?

11 COMMISSIONER NIXON: Motion.

12 CHAIRMAN REYNOLDS: I hear a motion. Do I
13 hear a second?

14 COMMISSIONER HUDGINS: Second.

15 CHAIRMAN REYNOLDS: I hear a second. All
16 those in favor, say aye.

17 NOTE: The Commission votes aye.

18 CHAIRMAN REYNOLDS: All those opposed? None.
19 The motion passes unanimously.

20 MR. PETRAMALO: Thank you.

21 CHAIRMAN REYNOLDS: Thank you very much.

22 Next on the agenda is discussion of the
23 purchase agreement between Churchill Downs,
24 Incorporated and Peninsula Pacific. Before we hear
25 from Bill Carstanjen, I would like for the benefit

1 of him and also the Secretary of Agriculture to
2 hear from the VEA, the VTA, the VHBPA, the VHHA,
3 the VGCA and CBG.

4 So I'll start with the Virginia Equine
5 Alliance. Just get up briefly and just tell us
6 what you all are about. Jeb Hannum.

7 MR. HANNUM: Thank you. It's an awkward
8 space, so I'll probably have my back to someone so
9 I apologize.

10 I want to provide some background about the
11 VEA and touch on some key dates that I think have
12 been important over the last few years and I do
13 this as background for Churchill Downs and for the
14 Secretary of Agriculture and just really for the
15 group. So I'll dive in on that and if there are
16 any questions, please just let me know and I can
17 stop and comment further.

18 First of all before we get in to it, I just
19 want to thank Larry Lucas and Prentice Salter.
20 They were the ones that had the vision for getting
21 racing going back here at the track and it was
22 their idea and we will never forget sitting down
23 with them at lunch in warrenton in July of 2017 and
24 hashing it all out. Without their vision, this
25 wouldn't have come forward.

1 A special thanks to Brent Stevens for
2 implementing it. Brent has been a great partner.
3 Everything he said he was going to do, he did, and
4 more. So we're so appreciative of Brent and his
5 team. One of the great things that Brent did was
6 he brought us John Marshall and Jill Byrne and the
7 rest of the management team who have been so great
8 to work with.

9 Getting the track up and running after it has
10 been closed for five or six years was an
11 extraordinary effort. I think I probably heard
12 hundreds of hours about how the escalator wasn't
13 going to work and they were going to have to pull
14 it out and put in a new one and that was only one
15 of the thousand things on Jill's list. So thank
16 you to Brent and all of the team.

17 To Churchill Downs, our new racing partners,
18 we look forward to working with you and welcome to
19 Virginia. Thank you for all being here.

20 So the VEA is a unique organization. I'm just
21 going to start on the second bullet. When I'm
22 asked about it, particularly with people in the
23 horse industry, they say are you horsemen's
24 association or what are you? I say really, we're
25 sort of a trade association in a way and our job is

1 to represent and to advocate and to negotiate for
2 the racing industry. So that's what we do. But
3 really, there's no other organization like the VEA
4 in the country.

5 So we're made up of four organizations; the
6 harness horsemen, the HBPA, the Gold Cup
7 representing all of the steeplechase racing, and
8 then the Thoroughbred breeders, the VTA. So from
9 our bylaws, our purpose is to sustain, promote and
10 expand racing in Virginia.

11 From our board, Dr. Allison is here today
12 representing the steeplechase community; Susan
13 Cooney representing the VTA, the breeders; David
14 Ross, the HBPA; Scott Woogen, the harness horsemen
15 and then Debbie Easter is our president.

16 So touching on some key dates, and this is
17 really sort of the history and talks to how the VEA
18 came into creation. In 2014, 2015, the industry
19 was really on its knees. The tracks were closed,
20 the OTBs were closed and things were looking pretty
21 gloomy and so a group of people led by Dr. Allison
22 and others felt that the industry really needed to
23 speak as one voice in an official way if we were
24 going to be able to take things forward.

25 So we came down to the legislature in January

1 of 2015 with some ideas for some changes to the
2 Racing Act and we were largely able to get
3 everything done that we wanted to do. Ed Scott,
4 who is here today, was the delegate on the House
5 side, Jill Vogel, the senator on the Senate side,
6 really spearheaded things for us.

7 what happened, among other things, is the
8 language in the Racing Act spells out that a
9 nonprofit industry stakeholder organization may be
10 designated by the Racing Commission to officially
11 represent the industry.

12 So on July 1st, 2015, the VEA came before the
13 Commission and we were designated as that
14 officially, the nonprofit stakeholder organization.
15 So that got things going. Importantly, that also
16 gave us a dedicated funding source through ADW
17 revenue, which enabled us to keep the lights on and
18 get things going.

19 So then we sat down and worked on a five-year
20 plan which we presented to the Racing Commission in
21 December of 2017, spelling out a number of things
22 that we wanted to see happen.

23 Importantly, calling out the need for an
24 alternative revenue source to support racing. This
25 was at the time we were starting discussions with

1 the Revolutionary Racing Group.

2 And then going into the 2018 session, that's
3 when we were able to get Historical Horse Racing
4 machines approved for the track and at the OTBs.

5 Then shortly thereafter following, we signed a
6 ten-year contract with the new Colonial Downs
7 Group, which set things in motion to get the track
8 reopened and to find the things that we needed to
9 do, not just here at the track flat racing, but for
10 all of our member groups.

11 So going forward, no great surprise, after HHR
12 was approved, I think every casino company in
13 America was in Richmond and there was a big push to
14 legalize casinos in 2019.

15 Our position on that was that we needed -- the
16 legislature should take a pause and consider the
17 ramifications of that in terms of competition to
18 the racing industry, competition to the lottery and
19 other things.

20 So our position which was eventually adopted
21 is the legislature should do a study and look at
22 all of the factors that would be involved if
23 casinos were approved, and importantly, look at the
24 impact to the racing industry which had just been
25 given a lifeline the year before with HHR machines.

1 So a study came out referred to as the JLARC
2 study and it very clearly spelled out there would
3 be significant competition to the HHR machines,
4 thus affecting racing to the extent that racing
5 would see about a 40 percent decline in funds
6 available if the casinos were approved as addition.
7 So that was very important.

8 So when we came into the 2020 session when
9 there was considerable support to get a casino bill
10 done, were able to speak to that 40 percent number,
11 which was important.

12 In the casino legislation, there were
13 protections for Colonial having made this
14 investment, but also, importantly, protections for
15 the racing industry. The main part of those
16 protections was the increase in the Dumfries site.

17 So the Dumfries OTB had about 100 HHR
18 machines; 100 to 150 already approved. The casino
19 legislation was going to enable that to go up to
20 over 1,000. So that was a significant change in
21 the scope of the Dumfries site.

22 I will say those of us that were down there
23 during the legislative process, there was a Senate
24 subcommittee that actually pulled that language
25 out. We can talk about why. There are lots of

1 different things going on.

2 I think that some people in the legislature
3 felt that Colonial had enough machines and they did
4 not need more. When the language was pulled out,
5 we had to go back and try to get it reinserted and
6 it was the message from the horsemen that really
7 resonated with the legislature and they knew that
8 they were really going to be undermining much of
9 the good work they had done previously if they
10 didn't provide some protections for the horse
11 racing industry.

12 So hence that Dumfries site which we're all so
13 excited about really was salvaged by the support of
14 the horse racing industry. So I think that's
15 important to remember.

16 In 2020, the VEA presented to the Commission
17 an economic impact study that we had commissioned
18 and this was looking at the industry in 2019. The
19 report done by Chmura said that the industry was
20 about a half a billion dollar industry in Virginia,
21 supporting over 5,000 jobs. So that was an
22 important thing, an important message, again, for
23 the legislature to understand the impact of the
24 industry.

25 So a couple of things to highlight going back

1 to 2015 that the VEA has been involved with,
2 primarily through its working with the member
3 groups of the VEA.

4 We built a new harness track out in Woodstock.
5 When OTBs all had been closed, we were able to get
6 those reopened and we ran the OTBs for a number of
7 years in Virginia.

8 Importantly, we helped get a Thoroughbred
9 residency program going. This has been a
10 phenomenal success. Debbie will touch on it in her
11 remarks.

12 Over 3,500 horses have come to Virginia to be
13 certified. If you come to Virginia for six months
14 before your two-year-old year, you're eligible for
15 a bonus in the Mid-Atlantic region. That has been a
16 huge driver of economic activity, getting horses to
17 farms all over the state.

18 We support purses with the Gold Cup and the
19 other sanctioned steeplechase meets. We have a
20 wonderful summer racing program here at Colonial
21 now, which we hope and expect to continue.

22 Then of course I think the most significant
23 accomplishment of the VEA is getting HHR machines
24 approved and protecting the industry when the
25 casino bill came on.

1 So I hope that is helpful for you,
2 Mr. Secretary, and for the Churchill Downs folks
3 that are here perhaps hearing this all for the
4 first time and gives some context to some of the
5 things we've been doing and the journey we've been
6 on since 2015.

7 These are the groups you're going to hear from
8 in a bit. Debbie is going to talk about the VTA;
9 Frank, the HBPA; Debbie Warnick about the Harness
10 Association; Dr. Allison will touch on the Gold
11 Cup.

12 Once again, we just really appreciate you
13 being here today to hear a little bit about
14 Virginia racing. Thank you.

15 CHAIRMAN REYNOLDS: Thank you, Jeb. Debbie.

16 MS. EASTER: Good morning. I'm Debbie Easter.
17 I'm the Executive Director of the Virginia
18 Thoroughbred Association, which we represent the
19 breeders.

20 The VTA has been around for over 75 years and
21 did most of the heavy lifting over the years of
22 bringing racing here to Virginia.

23 But to follow up on what young Jeb said, is
24 that one of the greatest things and probably one of
25 the toughest things that happens in our industry is

1 that we're all these separate groups that don't
2 work together; they all work for individual
3 purposes.

4 Between the Commission and all of the people
5 involved here, we've worked really hard to put our
6 groups together. Yes, we don't agree all the time,
7 but what it has done is allowed us to move things
8 forward very well here in Virginia and we hope that
9 we'll be able to continue that in the future and
10 look forward to working with Churchill to do it the
11 same way we've been doing it with Peninsula.

12 The only other thing that I'd have to say is
13 that, you know, my responsibility is trying to make
14 the visibility and the value of Virginia-breds
15 greater than it is now, and we're always working
16 towards that and I look forward to working with all
17 of you all to do that in the future. So thank you
18 very much.

19 CHAIRMAN REYNOLDS: Thank you, young Debbie.

20 MS. EASTER: I'm not young. I have too much
21 gray hair.

22 MR. PETRAMALO: Surely no one is going to call
23 me young.

24 CHAIRMAN REYNOLDS: Young Frank.

25 MR. PETRAMALO: I'm the Executive Director of

1 the Virginia HBPA. The HBPA has been here since
2 the start of racing in Virginia in 1994 when it was
3 first made legal. Our organization has about 1200
4 owner and trainer members. It's a nonprofit run by
5 a board of 18; nine trainers and nine owners.

6 Our principal job in addition to running the
7 benevolence program that you heard me talk about
8 earlier during the race meet is to represent the
9 horsemen in all of the dealings with racetrack
10 management; specifically in negotiating a
11 horsemen's contract.

12 We typically have had horsemen's contracts
13 over the years that last anywhere from two to three
14 years. Our current contract expires at the end of
15 this year so we will be negotiating a new one.

16 I can't say enough about the importance for
17 Virginia racing of the Colonial Downs Group that we
18 have here. They brought us back from a shutdown to
19 where we are now.

20 This summer, we will race over nine weeks, 27
21 days and purses over \$625,000 a day. That's a lot
22 and it wouldn't have been possible without the
23 support of Jill and John, et cetera, and we hope to
24 have a similarly fruitful operation going forward
25 with Churchill.

1 CHAIRMAN REYNOLDS: Thank you, Frank. Debbie
2 is next. It doesn't really matter. Go ahead, Dr.
3 Allison.

4 DR. ALLISON: Mr. Chairman, Commission
5 members. I'm Bill Allison. The Virginia Gold Cup
6 race is in the spring and the international Gold
7 Cup races are in the fall and we are part of this
8 group because we have a pari-mutuel license, but we
9 are part of a family of steeplechase racing and
10 there are seven sanctioned race meets and eight
11 point-to-point race meets in the state of Virginia.

12 The sanctioned meets, we have two in
13 Middleburg, two in Foxfield, two at Gold Cup and
14 one at Montpelier and we also have enjoyed jump
15 racing at Colonial Downs and these are all very
16 popular things. We have great support from owners,
17 trainers and our fans.

18 Speaking of our fans, we have opened up and we
19 hope to have things back to normal. As Ms. Shannon
20 will say, our sales are getting back to normal and
21 that is not only the parking spaces, but also the
22 tents and sponsorships are coming back.

23 We have a good field and pool of horses in
24 training and this is one of the important elements
25 of good racing and we all should have a little pat

1 on the back because during the pandemic, we ran
2 horses only and this allowed our owners and
3 trainers to earn a few dollars to keep going and
4 that's why we have these horses ready.

5 So thank you, Commissioners, for your support.
6 Good racing is ahead of us.

7 CHAIRMAN REYNOLDS: Thank you, Doctor.

8 MS. WARNICK: Good morning, everyone. I'm
9 Debbie Warnick. I'm Executive Director of the
10 Virginia Harness Horse Association. The VHHA is
11 responsible for overseeing breeding, training,
12 racing and everything related to Standardbred horse
13 racing.

14 I have been involved with it for five years
15 now. Before that, we were just racing horses, but
16 on the administrative side, I have been with it for
17 five years.

18 With the VEA, we put on the race meet at
19 Shenandoah Downs. We have raced in the fall.
20 Historically, we haven't raced at Colonial since
21 the new ownership has been here, but we have had
22 the race meets in Shenandoah.

23 Just this year, we are expanding. We are
24 going to eight weeks instead of five weeks. Next
25 year, we are expanding even more and are going to

1 have a spring meet and fall meet, subject to
2 approval from the Racing Commission, which we're
3 really excited about.

4 Harness racing in Virginia is becoming quite
5 the place to be in our industry. We really get a
6 buzzword as people say last year's race meet we had
7 horsemen race here from 14 different states plus
8 Canada and they all come back and talk to the
9 people at their tracks about how great racing is in
10 Virginia and how Virginia treats the people that
11 come here to race and how great it is to be here.

12 So we're really looking forward to what the
13 future brings, both at Shenandoah and working with
14 Churchill.

15 CHAIRMAN REYNOLDS: Thank you, Debbie. For
16 those of you who have not had an opportunity to go
17 up to Shenandoah and Woodstock and see the harness
18 race meets, it's one of the most beautiful spots
19 you'll see. You sit in the stands and it's just
20 beautiful up there. So I would encourage anybody
21 and everybody to go up there when you get a chance.

22 MS. WARNICK: We welcome everybody to come
23 out. We start September 17th. We're waiting for
24 the Commissioners to come out. We'll put you in
25 dog carts.

1 CHAIRMAN REYNOLDS: I've done that and lost my
2 cell phone and somebody found it for me. And don't
3 wear shorts.

4 MS. WARNICK: When you all come up, we'll put
5 you in the races. Put you up against each other.

6 CHAIRMAN REYNOLDS: Thank you, Debbie. Next
7 is John Marshall, representing Colonial Downs.

8 MR. MARSHALL: Thank you, Debbie. Thank you,
9 Mr. Chairman, members of the Commission, Secretary
10 Lohr and his staff. I'd like to pick up where Jeb
11 left off and peel back another layer of history so
12 that you get a feel for how far we've come in such
13 a short period of time.

14 My name is John Marshall. I'm the Executive
15 Vice President of Operations for Colonial Downs
16 Group. In 2018, we started Colonial Downs Group as
17 a company and Brent Stevens from Peninsula was
18 clear to us. He said, John, we're not opening a
19 property. We're building a company. So we set off
20 in the spring of '18 after the passage of 1609 to
21 build that company.

22 So as we proceeded, we built the team, Jill
23 joined the team and Jeff Townes, our Vice President
24 of Gaming Operations as well, and we proceeded
25 building this company, beginning with the opening

1 of Rosie's New Kent in April of 2019.

2 Soon to follow in May of 2019, we opened
3 Rosie's Vinton outside of Roanoke. In short order
4 in July of 2019, we opened Rosie's Richmond. These
5 are facilities with 600, 150, 700 units back to
6 back to back before heading into our racing revival
7 of our inaugural meet with 15 race days in 2019,
8 which was spectacular, followed by a great concert
9 with Old Dominion; top billing, very successful.

10 Soon after, we opened Rosie's Hampton in
11 October of 2019; another 700 units. Things were
12 going smoothly through Q1. We were getting
13 traction, marketing programs were taking effect and
14 we were all hit with the pandemic.

15 So we did endure a short closure like most
16 businesses did from March through June and reopened
17 with at the time Governor Northam's restrictions
18 and followed the CDC guidelines and the Virginia
19 Department of Health and so on. But we did reopen
20 in June under those restrictions.

21 Going forward, we continue to operate and we
22 opened Rosie's Dumfries in January of 2021 with 150
23 units and continued to work through the limitations
24 and opened Rosie's game room in Collinsville with
25 37 units, which is a unique model for us that we

1 could get in to in more detail another time.

2 In July of 2021, restrictions were lifted.
3 Things were getting back to normal, operating under
4 precautions, and we moved ourselves forward.

5 Today, we're operating with over 2,600 HHR
6 units. I did -- I am remiss. In 2021, we operated
7 21 race days at Colonial Downs and set record
8 handle levels, record single day, record meet
9 totals for the entire history of Colonial Downs.
10 Not just the period of Colonial Downs Group
11 ownership, but going back to the beginning of time
12 like Jeb had listed here and we're very proud to
13 have done that.

14 April 23rd is our third-year anniversary. We
15 call it R'Day; R standing for Rosie's, R meaning
16 ours. April 23rd will make three years since the
17 opening of Rosie's New Kent. During that time
18 period, all public information, we generated \$53
19 million in tax revenue for Virginia.

20 But more interestingly, over the trailing 12
21 months, we generated 27 of the 53 because of the
22 interruptions due to the pandemic. For our
23 localities, we generated 35 over the past three
24 years with 18 over the trailing 12. For this
25 group, we generated 32 million in VEA industry

1 revenues through our activities. The majority of
2 that over the trailing 12 is 21 million. So a
3 fantastic success story.

4 We've done this together. I didn't do it.
5 Brent Stevens didn't do it. Jill didn't do it, but
6 we did it as a group and I have never seen it work
7 so well in my career and I've worked in four
8 different jurisdictions. So we did do this
9 together.

10 A few key dates to pay attention to. We broke
11 ground for the Rosie's in Dumfries January 11th
12 with a targeted opening date for phase one in
13 September of 2023. Our team is also working on
14 breaking ground in Emporia on Rosie's Emporia on
15 April 21st. All of you will receive an invitation
16 to join if your schedules permit and our target to
17 open will be July of 2023 for that property.

18 I'd like to give the group some assurance
19 around our preparations for live racing for 2022.
20 Jill and team have been working diligently to
21 prepare and we are way ahead compared to prior
22 years. I'd like to mention two key hires which
23 have extremely bright futures in Virginia racing.

24 One is Harrison Young, our Director of Racing
25 Services. He joined us this year from Ocala.

1 Harrison. And we also Dave Zenner, our Director of
2 Racing Operations, who joins us this year. Two
3 very key positions which I think this Commission
4 and Dave and his office will appreciate very much.

5 So with that, Secretary Lohr, welcome and I
6 hope that was a good background for you.

7 The entire team at Colonial Downs Group, like
8 the VEA organization, we're very much looking
9 forward to working with Churchill Downs and being
10 part of one of the leading, the leading companies
11 in racing and one of the emerging companies in
12 gaming. Thank you.

13 CHAIRMAN REYNOLDS: Thank you, John. With
14 that, I'd like to welcome again Bill Carstanjen,
15 CEO of Churchill Downs, who will present to us.
16 Thank you for joining us today.

17 MR. CARSTANJEN: First, thank you for having
18 me. It's a great honor to represent Churchill and
19 to be here today. I'll stand over here so everyone
20 can see me. I really just am just thrilled to hear
21 everybody get up and talk about their role in the
22 industry within Virginia and I have so many
23 questions for you guys, but I understand what I'm
24 here today to do is to introduce myself, introduce
25 the company, talk a little bit about the

1 transaction, the timing and then talk about our
2 future together with Virginia racing.

3 So first, again, I'm Bill Carstanjen. I'm the
4 CEO of Churchill Downs. I've been with the company
5 for 17 years. I've had a variety of different
6 roles within the company. I've been the CEO for
7 about eight years, but I've seen the company from a
8 lot of different perspectives and I've been a part
9 of the tremendous evolution of the company.

10 Just as a frame of reference, during my time
11 in the company, and again, this is not specific to
12 stuff I did. I'm lucky to be a part of a great
13 team, a great team of people. But while Churchill
14 is an old company and has been around for 148
15 years, this is our 148th year of being in business
16 and of conducting the Kentucky Derby, there has
17 been a lot of changes over those 148 years within
18 the country and our company.

19 So for me starting 17 years ago when I got to
20 the company, we were focused solely on racing.
21 That was the only thing we had done. But since
22 that time, we have evolved. We got into gaming
23 because as a racetrack, we have that right to do it
24 in a few jurisdictions.

25 But from that, we've built ourselves into one

1 of the leading gaming companies in the United
2 States. Sometimes I have a hard time remembering
3 that or thinking about it because we started at the
4 bottom of 100 companies in gaming, but we've really
5 grown substantially over time. By the time all of
6 this is built out, all of the plans in Virginia,
7 we'll have 27 gaming properties, 27 different
8 gaming properties and we'll be one of the largest
9 gaming companies in the United States.

10 We also have gotten very, very involved in
11 online wagering and many of you know our app,
12 TwinSpires. I was part of the team that developed
13 that and that has been a great way to reach our
14 customers. So our company has evolved as it needed
15 to.

16 But through all of that, first and foremost,
17 we are a racing company. It is the heartbeat of
18 what we do. It is the thing people are most
19 passionate about within our company and it's what
20 makes us special. It's our special sauce.

21 So people think of us and they think of the
22 Kentucky Derby, which is coming up the first
23 Saturday in May, and yes, that's the culmination.
24 That's a special day. That's a special time. It's
25 really a holiday in Kentucky almost.

1 But really, we're racing almost every day
2 somewhere in the United States across all of our
3 different Thoroughbred tracks and our harness
4 tracks almost every day, if not every day in the
5 United States we're racing somewhere.

6 So racing is our lifeblood. We know a lot
7 about it. It's the thing I think that we know most
8 about and for us, the only disappointment I have
9 ever had about Virginia is we saw Virginia coming
10 and we so much wanted to be a part of it, but we
11 didn't have that opportunity when it first started.
12 It went to Revolutionary Racing and then to
13 Peninsula, but we kept after it.

14 I can tell you being a part of all of the
15 things that have changed in Churchill Downs over
16 the last 17 years, there's nothing that I wanted
17 more than to see our company become a part of
18 Virginia racing.

19 I just think this is a jurisdiction, this is a
20 state and the Commonwealth that has so much
21 opportunity, such a rich background in racing. It
22 has such a wonderful facility and it has such a
23 great model. I commend all of you who have been a
24 part of developing the model that has led to this
25 date. This is really, really special.

1 Many racing jurisdictions out there have tried
2 to do something around alternative gaming. Most
3 haven't gotten it right or even come close to
4 getting it right. But what is going on here, these
5 are some fantastic building blocks that will result
6 in great success for Thoroughbreds and for harness
7 going forward. I commend all of you who are
8 involved in this. This is really well done and
9 it's the building blocks for something very, very
10 special.

11 So for me, paying attention to all of the
12 jurisdictions across the United States, familiar
13 with most of them, could probably go toe-to-toe
14 with just about anybody in most of the
15 jurisdictions talking about how they work and what
16 the pros are and what the cons are. Virginia is
17 the one I just thought there was so much
18 opportunity.

19 Fortunately, they say sometimes good things
20 come out of bad things. I got to know Brent
21 Stevens extremely well because prior to P2E, he had
22 another gaming company that he started and we tried
23 to buy that company very, very aggressively. This
24 is more than a decade ago, and we were unsuccessful
25 in winning that deal.

1 However, I got to know Brent during that time
2 period and we stayed in touch from that point on,
3 so from the moment he got involved in Virginia
4 racing, we were hovering and we were talking and we
5 were discussing and I was waiting until there would
6 be an opportunity for our company to come and get
7 involved here.

8 So for me as someone that has been doing
9 racing for 17 years and has watched what you have
10 to do and been a part of what you have to do to be
11 successful in racing, just as a frame of reference,
12 15 years ago, 17 years ago, Churchill Downs, we're
13 a public company. We had a market capital of
14 probably 350 million or so. Now it's around
15 enterprise value north of ten billion.

16 We're a company that has seen success. We're
17 a company -- we know what the formulas are to bring
18 success and so when we find an opportunity, we find
19 a place where we think some of our formulas, some
20 of our knowledge that we have learned in other
21 places can be applied, we jump at it and that's
22 Virginia.

23 Having seen some of that, this is I think just
24 a start of a great ride. A great ride together.
25 What's important now for me is to meet everyone to

1 establish trust, to establish commonality, to open
2 up lines of communication. Because while I think
3 we bring a lot of background in other jurisdictions
4 that will help us here, we still have a lot to
5 learn about the specifics of Virginia and what
6 people value most here and what they want and what
7 their ideas are to make this place a great success
8 going forward.

9 I really do think this jurisdiction has
10 an opportunity to grow in relevance on the racing
11 front to be the premiere racing jurisdiction on the
12 eastern seaboard, all the way up almost to the
13 level of NYRA in New York and perhaps in a niche
14 way, perhaps even stronger and more special than
15 that. That's what I think the opportunity is for
16 this jurisdiction.

17 Thank you for considering us to be a part of
18 it. I know that as I transition to talk a little
19 bit about the deal, we have some work to do before
20 we can truly get started.

21 So this transaction, where we are in this
22 transaction, yes, we signed the agreement. We
23 agreed to all of the terms. Now we're really in
24 the stage of getting ready to close and it's a
25 little bit -- doing a large deal. This is a \$2.5

1 billion deal. Doing a large deal is a little bit
2 like buying a house. You sign the paperwork to buy
3 your house and there's a bunch of stuff that
4 happens before you can actually close on purchasing
5 your house.

6 That's where we are in this deal. We cleared
7 federal approval, we raised the financing, so we
8 have all of our financing in place. But where we
9 are now, the primary driver in terms of what needs
10 to happen, closing conditions, what needs to happen
11 before we can close really goes to regulatory
12 approval.

13 While first and foremost, this deal is about
14 Virginia and that's what we're talking about here
15 today, P2E actually is operational in three
16 jurisdictions; Virginia, New York and Iowa.
17 With respect to New York and Iowa, racing isn't
18 involved. It's purely casino gaming.

19 But we need to get regulatory approval not
20 only in Virginia, but also from New York and also
21 from Iowa. The way this transaction is structured
22 is it doesn't get bifurcated. Approval needs to be
23 achieved in all three jurisdictions before we can
24 close in any jurisdiction.

25 Having raised all of the financing and gotten

1 federal approval and done all of our filings at the
2 state level, what happens now is we work with the
3 authorities at the state level, including the
4 Virginia Racing Commission to process through their
5 questions and their concerns as quickly as we can,
6 because when we get those things done, at that
7 point we're ready to close and the sooner we can
8 close the faster we can get started.

9 So I certainly invite any questions. I tried
10 to cover as concisely as I could our company and
11 our interest, but again, before I take questions, I
12 want to congratulate everybody for the work that
13 has been done to get this jurisdiction to the place
14 that it's at.

15 I think the building blocks are there to do
16 things that are really going to be special. I
17 think we have a lot of ideas and a lot of things
18 that we can bring to make the racing here even more
19 special and bigger and higher profile and more
20 successful.

21 Some of those things I can talk about and some
22 of those things, I think it's best to get the deal
23 closed before we do those things, before we talk
24 about them.

25 But the knowledge and the wealth of resources

1 within our company are things that we will bring to
2 bear here without restriction. We will bring
3 everything we've got. We will bring every tool
4 kit, every tool in our tool kit. We'll bring all
5 the expertise that we have. We will do our very,
6 very best to be worthy of the trust that the Racing
7 Commission hopefully will show in us and hopefully
8 all of you will show in us.

9 I think it might have been Jeb that made the
10 remark, but somebody made the remark that Brent did
11 everything that he said he was going to do and I
12 think that's maybe the highest compliment you can
13 be paid when you're a CEO of a company and you work
14 in a jurisdiction over time.

15 I think it may actually be the highest
16 compliment you can be paid, despite unexpected road
17 blocks or occurrences that you did everything you
18 said you were going to do. I will make the same
19 commitment. Everything we promise to do we will do
20 and we will do absolutely our best to bring
21 Virginia racing to the absolute forefront of the
22 racing scene.

23 With that, I'll make the discretion of the
24 Commission, serve at the discretion of the
25 Commission. What would you like me to do? I'm

1 happy to take questions and I'm happy to sit down
2 if you've had enough of me as well. It's up to
3 you.

4 CHAIRMAN REYNOLDS: I don't think we're quite
5 done with you yet, but I appreciate it. I
6 appreciate the presentation. So what we would like
7 to do now is turn it over to the Commissioners for
8 their questions and comments, and after we're done,
9 I would like to open it up for anybody in the
10 audience who might have some questions or comments.

11 So with that, if you'd stand there. If you
12 want to sit down and go wherever you want, but just
13 keep the microphone with you.

14 MR. CARSTANJEN: I'll stand right here so I
15 can see everybody and they can see me.

16 CHAIRMAN REYNOLDS: I'll ask my fellow
17 Commissioners. We'll go up and down the line, but
18 I'll make sure everybody gets their questions and
19 comments in. Is everybody ready to go?

20 COMMISSIONER HUDGINS: I'll start.

21 CHAIRMAN REYNOLDS: All right. Commissioner
22 Hudgins.

23 COMMISSIONER HUDGINS: Thank you for that
24 introduction. It sounds wonderful. I'm a bit like
25 President Reagan though; trust but verify. I'm

1 going to ask you the first question which comes to
2 my mind, which is the return on investment in
3 gaming is significantly more than in racing.

4 I understand you started with racing, but on a
5 list of profitable investments, racing not so much
6 compared to, oh, gaming. So why is your future
7 including racing when it can fade out over the
8 years and leave you with none of the cost but all
9 of the benefits? Why is that important to you,
10 sides the kumbaya bit? From a business model,
11 really do you need and want the racing and why?

12 MR. CARSTANJEN: It's a really good question.
13 I would break it down because every jurisdiction is
14 different. So in many jurisdictions, including
15 Kentucky, racing and gaming are one thing. They're
16 inextricably tied. So there's a lot of
17 similarities between Kentucky and Virginia.

18 Kentucky also is a Historical Racing machine
19 jurisdiction, but the two are inextricably tied.
20 They're inseparable. Kentucky is an example of
21 what can happen here and what we hope to have
22 happen here.

23 Yes, we are a public company. Yes, we strive
24 for returns, but the separation of the economics of
25 racing from gaming in a state like Kentucky, you

1 can do it formally, but I don't know really what
2 the point of it is. It's all one thing. One feeds
3 the other. They feed each other.

4 Along with the success of HRMs in Kentucky has
5 been the re-genesis or the rebirth of Kentucky
6 racing and that's a good, good thing for our
7 company and a great, great return.

8 Splitting hairs like a business student might
9 do between, well, what's the rate of return between
10 an investment in gaming and an investment in
11 racing. In a healthy, successful jurisdiction,
12 it's not worth splitting the return. It's all one
13 thing.

14 So Virginia is like Kentucky. The racing and
15 gaming -- the way the model has been built, the
16 gift from the legislature, the approach from the
17 legislature and the approach from the regulatory
18 structure is really that they're tied together.

19 So the fact that we care about racing and we
20 love racing as part of our DNA is actually a really
21 good thing because we can meet the expectations of
22 all of the constituents; the racing side, but also
23 the legislatures who tend to care about tax and the
24 other constituents.

25 I would say that we've talked a lot about the

1 tip of the iceberg here, which is folks from
2 Thoroughbred racing getting up, folks from harness
3 racing getting up and talking about their
4 organization and how it works around and from --
5 steeplechase as well -- how it works around the
6 racing itself, but that really is the tip of the
7 iceberg.

8 It's racing in a healthy jurisdiction. This
9 is something Virginia needs to be patient with and
10 focused on. Racing in a healthy jurisdiction goes
11 way beyond the race day. It's the lay of the
12 farms, it's the breeding farms, it's the farm
13 producing the feed, it's the vets, it's all the
14 infrastructure that goes to taking care of a horse
15 throughout its life. It's not just race day.

16 So all of those things are something that the
17 leadership team at Churchill feels and knows. I
18 have a farm. I've just gotten talked in by my wife
19 into buying another farm.

20 I live this game from a bunch of different
21 perspectives. When I put on my Churchill Downs CEO
22 hat in the morning, yes, I have be accountable to
23 the shareholders, but that's not really a burden
24 for me to do that because in the places that we're
25 most successful with racing, the model around

1 racing and gaming has been tied together in such a
2 way that the investments for both sides of the
3 house are absolutely worthwhile and appropriate
4 and feed each other and we can technically try to
5 separate them, but I don't know what the point is
6 and that's what Virginia is gonna be like.

7 COMMISSIONER HUDGINS: I have one follow-up
8 question to that. Three of the tracks that you
9 have did not make it. Why them? How is it that
10 won't happen here in Virginia, outside of the fact
11 this Commission sure as hell doesn't want to be a
12 part of that.

13 MR. CARSTANJEN: Well, it's a really good
14 question and an important question. Racing doesn't
15 work everywhere. It's tough though. Before I came
16 to work at Churchill, I worked at GE and I was at
17 GE Capital as well, so tough businesses and racing
18 stand-alone can be a very tough business.

19 The alternative revenue provided by
20 alternative gaming has been important. So racing
21 is something that can get screwed up and it has
22 been screwed up in a whole bunch of jurisdictions
23 and it was screwed up in Virginia for a while.

24 So Illinois is an example of where racing is
25 really screwed up and it doesn't work well. I

1 think it's fair to say that we've demonstrated over
2 time that we're a fairly sophisticated company with
3 a lot of experience in racing and in business and
4 our returns over time have shown that we are a
5 deeply experienced, deeply accomplished company at
6 this point.

7 So we do our absolute best, but it doesn't
8 always work and we go to the legislature and we go
9 to the regulatory body and talk to them about what
10 are the flaws in the system. Why doesn't racing
11 work. But if it doesn't work, it doesn't work.
12 There are jurisdictions out there where racing is
13 just not set up to survive.

14 I'll give you a couple of distinctions that
15 make Virginia a little bit better. One is you're
16 not starting at this point from some historical
17 level. Take a state like Illinois where they
18 really want to talk about the world like it's 1985
19 or 1975 with a certain number of race dates and all
20 sorts of bells and whistles that define the
21 industry at a different time when there weren't
22 alternative forms of gaming and other forms of
23 entertainment in general.

24 So Virginia has the chance to sort of be
25 reborn. It is not a jurisdiction that's saying we

1 should be running 200 days because in 1978 we ran
2 200 days and we should always be measuring
3 ourselves against the past. Virginia is really
4 starting over. It's building from 22 days last
5 year to 27 days this year to 50 days, hopefully
6 more than that, on the Thoroughbred side.

7 So I would never shy away nor apologize for
8 any actions we've taken in other jurisdictions
9 around racing. It doesn't work everywhere and it's
10 a partnership with the horsemen, with the
11 regulators, with the legislature and with the
12 tracks. It's a partnership and when there's a
13 failure in that partnership, there were
14 catastrophic consequences in those jurisdictions
15 where that happens.

16 So it can happen anywhere. It can happen
17 anywhere and it has happened before to us in more
18 than one jurisdiction and we will deal with that
19 appropriately when we see that across our family of
20 tracks, but those aren't our proudest moments. We
21 always try to make it work and we are always
22 upfront and we are always clear on what we think it
23 takes to be successful.

24 But I will tell you Virginia, this is a really
25 good framework and structure and foundation from

1 which to build on, but one of the key distinctions
2 between this and some of these other jurisdictions,
3 you're not chasing the past. You're not chasing
4 some recollection of 1975 where you're saying
5 that's the standard.

6 A lot has changed since 1975, since 1980,
7 since 1990. And 1985, you know, there were two or
8 three jurisdictions in the United States that had
9 casino gaming. Now there are 40. There were only
10 a handful of states at that time that had
11 lotteries. Now almost every state has a lottery.

12 All those forms of alternative gaming even
13 before you get to other alternative forms of
14 entertainment, all of those things have an impact
15 on racing and racing always needs to adjust to
16 that. In some jurisdictions racing didn't adjust.

17 In Virginia, there have been some ups
18 and downs and Virginia struggled for a while, but
19 then it put together a framework that's going to
20 stand the test of time off into the horizon. As
21 far as the eye can see, it's going to stand the
22 test of time.

23 We have to work on it together. The world is
24 going to keep changing and there will be new
25 technologies. There will be new forms of

1 entertainment. Racing is an old form of
2 entertainment. It's one of the oldest forms of
3 entertainment in the United States. It has to stay
4 fresh. It has to stay relevant. It has to be
5 willing to try different things.

6 If and when we get our license, you'll see us
7 do different things here. You'll see us try
8 different things that worked at our other tracks.
9 You'll see us push the envelope because we're very
10 focused on staying relevant. Not just in the
11 wagering world, but in the entertainment world.

12 You'll see us very focused on our on-track
13 attendance now that there's a structure in place to
14 help fund the purses here, because that's always a
15 challenge for racing, working, generating the purse
16 money.

17 Now that there's a very healthy, strong
18 structure to generate purse money here, it frees us
19 up like you've seen us in Kentucky to focus on,
20 well, how do we incite the crowd. How do we get
21 younger people to the track? How do we get people
22 to think about us as entertainment if their biggest
23 thrill of life is not watching a horse race, they
24 just want to be part of the scene and the
25 entertainment element? How do we get them to

1 engage? These are things we constantly test not
2 only at the Derby itself, but through the race meet
3 and in lieu of it.

4 COMMISSIONER NIXON: I have a question.

5 CHAIRMAN REYNOLDS: Next, Commissioner Nixon.

6 COMMISSIONER NIXON: I know you certainly have
7 a lot of work ahead of you. Our next Racing
8 Commission meeting I think is in June. Do you
9 think at that point you will be better to
10 articulate a five-year plan moving forward for
11 racing and OTBs and how things will be moving
12 forward?

13 MR. CARSTANJEN: We'll be further along, but I
14 think our first priority will be getting the
15 transaction closed and just being respectful of the
16 current environment and the process.

17 I think we haven't gotten the benefit of the
18 approval of our jurisdictions yet and we shouldn't
19 have yet. We just filed the paperwork and are
20 going through the process.

21 We want to be respectful in participating in
22 your process and the same in New York and Iowa. So
23 wherever you take us in your process, we will be
24 responsive to that.

25 In terms of how we operate the business in

1 terms of once we close, we're actually already now
2 fairly far along in what we think we want to see
3 happen here and how it will work.

4 As I've explained to a couple of the
5 Commissioners before today's formal meeting
6 started, some of those plans will have to be
7 discussed in a small group or kept confidential
8 until we are given the license in order to proceed.

9 Certainly, there is a tremendous amount of
10 enthusiasm about what we're going to do in this
11 jurisdiction and so a lot of that work is already
12 well underway.

13 I would say in the broadest strokes, we want
14 to get all these machines deployed. We want to
15 take our race dates up to 50. We want to look at
16 where we run those race dates and whether we need
17 to bifurcate the meet. We want to look at stakes
18 races that we can move here from our other
19 facilities in our available stakes race program to
20 turbo charge the racing here and we want to look at
21 Derby prep; Derby prep races so we can have a
22 Virginia horse going to the Derby. That would
23 involve bifurcating the meet in order to make that
24 happen given where the current meet runs.

25 So those are all things around which we're

1 already doing a lot of thinking and planning, but
2 at this stage of our process with the regulatory
3 authorities, I think that's the appropriate level
4 of which to, you know, the broader strokes where I
5 think I would stop the explanation of our planning
6 at this point.

7 COMMISSIONER NIXON: Thank you.

8 CHAIRMAN REYNOLDS: All right. Commissioner
9 Tanner.

10 COMMISSIONER TANNER: This might be a question
11 you don't want to answer and that's understandable,
12 but my question relates to some of the levers that
13 you think are important to reaching those
14 objectives and perhaps some of it -- you already
15 mentioned one about one of your strengths being
16 able to experiment and develop experiences that
17 attract fans.

18 So my second question would be what are some
19 other things that you will be bringing to learning?
20 Maybe even point to an example or two that you
21 think will really play well here.

22 MR. CARSTANJEN: Yes. So I'll break it into
23 two different categories. One is the quality of
24 the racing product, which the team here has done a
25 fantastic job doing. It's really an extraordinary

1 effort, John, the full team. Jill, the full team.
2 So it's a nice start. A great start.

3 As the purse money increases and as the race
4 dates go on, you can attract a more comprehensive
5 program. Right now, you're not running enough
6 dates in this jurisdiction to really build some of
7 the infrastructure that you see in Kentucky in
8 terms of farms and trainers locating here. That
9 takes a little bit of time.

10 So I think in broad strokes, we want to get --
11 we want to get those machines deployed, get those
12 purse monies in place and get those race dates up
13 and there are lots of ancillary benefits that come
14 with that in terms of attracting infrastructure to
15 the state because there's enough opportunity to win
16 purse money for trainers and owners to devote
17 resources to being here.

18 I think stakes races are a great way -- so
19 quality of the product and then the attractiveness
20 of that product to the hardcore players. While
21 stakes races help that, so do purses in general.

22 Purses in general attract quality horses, but
23 if you get the stake races, that allows you to
24 build big, big days, which attracts the
25 handicappers across the country to pay attention to

1 you. It gets top of mind. It's a form of
2 marketing. When they pay attention to you for the
3 big days, they start following your meet in
4 general.

5 So on the core product, those are a couple of
6 things that are important to do over time and
7 everything is right on schedule, but there's more
8 to come. Quite a bit more.

9 I think important for our company, a big part
10 of the Derby is that energy of the Derby is not
11 driven by hardcore horseplayers. That's driven by
12 casual fans. That energy and excitement, those are
13 people that want to be entertained.

14 The philosophy of our company is we view horse
15 racing as entertainment for many of our customers.
16 Some of our customers are hardcore horsemen. They
17 want to play the horses, great, but many of our
18 customers, the ones that really drive the Derby,
19 they just want to be entertained and they view
20 horse racing as entertainment, so we have to give
21 the community in this region in the Commonwealth
22 here the opportunity to experience horse racing as
23 entertainment.

24 So you will see us reach into our bag of
25 tricks from Derby to try to deploy them here to

1 build interest, to build trial for people who
2 haven't been to the track, because as people who --
3 everybody has to be introduced to horse racing at
4 some point, and for us, we're not relying on, you
5 know, dads bringing their kids to the track
6 anymore. We need to reach millennials, all
7 different age groups and give them a reason to come
8 sample what we do here.

9 So breaking down this into a couple different
10 ways, you have the quality of the product, you have
11 the core horse racing player, wagering player, but
12 you also have the casual fan and that casual fan,
13 each one of them isn't worth as much as a hardcore
14 player, per se, but there are a lot more casual
15 fans out there than there are hardcore
16 horseplayers.

17 So reaching a lot of people and expecting less
18 of them and expecting just trial and expecting just
19 the energy they bring, that's a big part of our DNA
20 and our approach to horse racing at Churchill. So
21 hopefully that answered your question.

22 CHAIRMAN REYNOLDS: Commissioner Siegel.

23 VICE CHAIRMAN SIEGEL: Thank you,
24 Mr. Chairman. I'm encouraged by what I've heard
25 today. I think it's clear that people

1 traditionally resist change. It's the unknown that
2 people, that frighten people, particularly when
3 things are going well and it has been pointed out
4 today things are going well in Virginia.

5 This Commission serves the pleasure of the
6 Commonwealth and we work for the Commonwealth by
7 appointment and the enabling legislation that
8 established horse racing in Virginia was pretty
9 clear about the mandate; that was to promote the
10 native industry.

11 Of course the native industry in the
12 Commonwealth and we haven't done as good a job as I
13 think we can. There's always room for improvement,
14 not only with horses and horse farms, but the hay
15 man and the farrier and equipment sellers and
16 everyone and we have a lot of work to do there.

17 That native legislation never mentioned
18 gaming, but it's pretty clear that gaming drives
19 the success of this track and most if not all
20 tracks in the country. So I'm really happy to see
21 that happen because it is what has made us
22 successful beyond the basic qualities of what we do
23 here in Virginia.

24 So I just want to commend you. I had lots of
25 questions, most of which have been answered in the

1 dialogue today, but one thing I would ask. I know
2 that Colonial had plans to go back to the
3 legislature to request certain changes, perhaps
4 that would be made to improve hopefully racing and
5 their position in the Commonwealth.

6 what would Churchill be interested in doing in
7 changing the legislation and going back to the
8 House and Senate?

9 MR. CARSTANJEN: I want to be careful about
10 being presumptuous about that. It's a very good
11 question. Let me answer, but first say that things
12 have gone fantastically well here as Virginia
13 racing has been reborn and started back up again
14 and a lot of it you could say is right on course,
15 but I would never say that we should be at anything
16 other than a full sprint towards a destination
17 further ahead.

18 That's how we feel about Kentucky, too. We
19 couldn't rest on our laurels with the Kentucky
20 Derby. It's profitable, it does tremendously well
21 in the television markets. So there's a lot that's
22 good about it and it has really grown over the last
23 couple of years, but you don't see us doing that.

24 You see us doing several massive capital
25 projects, three that we've announced, and they're

1 sequenced because every first Saturday of May we
2 have to be ready to run the next Derby.

3 But you see us making a lot of capital
4 investments and taking all the risks that you take
5 when you're a company and you do capital projects.
6 You don't know if you'll get a return until you do
7 it.

8 So you take risks every time you invest in
9 your business and sometimes there can be pressure
10 not to invest when things are going well. Always
11 invest when you're doing well because things are
12 going right.

13 I see that corollary between Virginia and
14 Kentucky. Things are going well in Virginia, but
15 now is the time to really get after it and take
16 advantage of everything that the legislature has
17 offered the jurisdiction to date. Get those
18 machines deployed. Get that purse money flowing
19 in. Think about when you run your dates.

20 what would I change? I don't want to take us
21 there because there's so much that is right and so
22 much to be grateful about. One thing that I think
23 is a regulatory change and not a legislature
24 change. I don't like your purse construct where
25 you're paying purse money to horses that are

1 winning races out of state.

2 I think maybe that was something that was here
3 back when there weren't race dates being run here,
4 but now that you're running race dates here, it's
5 puzzling why you're paying horses to win races in a
6 different jurisdiction.

7 That's your purse money. It should be
8 invested in your racing program. Giving it to
9 horses that win races in Maryland or another
10 surrounding jurisdiction, I don't understand how
11 that helps the Commonwealth.

12 VICE CHAIRMAN SIEGEL: We're speaking about
13 Virginia-breds now; are we not?

14 MS. EASTER: Talking about certified.

15 MR. CARSTANJEN: You don't call them breds,
16 you call them certified. I think the rules around
17 becoming a certified Virginia horse, I think those
18 are clever that you can establish being certified
19 by bringing the horse here and stabling it for a
20 period of time, but letting those horses over time
21 go win races in other jurisdictions and taking your
22 purse money and giving it to them in other
23 jurisdictions, that's something I think you ought
24 to look at.

25 I don't think you'll find that to be a very

1 common program. I think the reason it exists
2 probably made sense when it was born and probably
3 had something to do with not having race dates in
4 Virginia, but now that you have race dates, you
5 want to invest every dollar that you can in your
6 Commonwealth racing program. You don't want to pay
7 horses to leave your jurisdictions.

8 Now, I'll leave it there because I've probably
9 offended more than one person by making that
10 comment, but sir, I'm trying to be respectful and
11 answer every question. That's one thing we
12 didn't --

13 VICE CHAIRMAN SIEGEL: We didn't have race
14 dates --

15 MR. CARSTANJEN: That makes sense.

16 VICE CHAIRMAN SIEGEL: -- so our
17 Virginia-breds, we want to give them an opportunity
18 somewhere to encourage people to breed their horses
19 and race them in Virginia and even with 27 days
20 it's probably not enough, but when you get up to 50
21 days, you're talking about making changes to that
22 program that would be more appropriate.

23 MR. CARSTANJEN: That's fair. That's one
24 thing I would probably be pestering people to look
25 at changing, because when you've got it, keep it.

1 Don't pay it to other people, don't pay it to other
2 jurisdictions.

3 VICE CHAIRMAN SIEGEL: Okay.

4 CHAIRMAN REYNOLDS: I've got a couple of
5 questions. The first one involves -- I assume I'll
6 let you answer it. Do you all plan on I guess
7 joining Urban ONE in trying to pursue a casino in
8 Richmond and get the referendum passed?

9 MR. CARSTANJEN: Yes.

10 CHAIRMAN REYNOLDS: Okay.

11 MR. CARSTANJEN: Certainly, we would like to
12 step into P2E's shoes and I'm hopeful and
13 optimistic that it will work out that way and that
14 involves some further discussion and agreement, but
15 I'm excited about the Urban ONE project and the
16 story hasn't been fully written on transfer, but
17 certainly we're very interested in that.

18 CHAIRMAN REYNOLDS: My follow-up to that is if
19 for whatever reason if the referendum gets put back
20 on the ballot and it fails again, this part of the
21 deal is not contingent upon your acquisition of
22 Peninsula?

23 MR. CARSTANJEN: That's a really good question
24 and it's a really simple answer. That project is
25 not one of the closing conditions of this

1 transaction.

2 CHAIRMAN REYNOLDS: Great.

3 MR. CARSTANJEN: We want this transaction to
4 be done regardless of what happens with respect to
5 Urban ONE. I think I'm very optimistic and
6 positive about everything about the Urban ONE
7 project, but regardless of what happens here, this
8 transaction will proceed completely independently
9 of that as soon as we have the approval of all
10 three jurisdictions, that's the last material
11 approval to close.

12 CHAIRMAN REYNOLDS: My last question on the
13 casino. Obviously, the Racing Commission has no
14 jurisdiction; that's a totally different deal, but
15 since you'll be doing this and have the casino, do
16 you see a possibility or opportunity where maybe
17 some of the casino funds could help the horse
18 racing or is that two totally separate things or is
19 that just something you'd have to think about down
20 the road?

21 MR. CARSTANJEN: I really don't think there
22 will be any funds that come off that casino that
23 will support horse racing, but it sure would be
24 nice to be a big part of that project because that
25 helps -- think of the Virginia HRM concept in the

1 state as a chess board. Where do you deploy --
2 where do you best deploy those assets? Where do
3 you deploy those HRM facilities and how many
4 machines do you put at each facility?

5 So I think the synergy of being involved with
6 the Richmond project really lends itself well to
7 then best appropriately placing the rest of
8 those -- placing the HRM machines elsewhere in the
9 state in a manner that maximizes them, that
10 maximizes them without sort of vicious head-to-head
11 competition.

12 CHAIRMAN REYNOLDS: Right. Okay, and my last
13 question involves harness racing. I know they have
14 a successful program up at Woodstock and not
15 necessarily looking to replace Woodstock;
16 obviously, you would have to talk to them. Do you
17 have a vision for harness or Standardbred racing
18 down here at some time of year that you all
19 mutually agreed upon?

20 MR. CARSTANJEN: We do a lot of harness racing
21 in Churchill. In fact, we built a new
22 state-of-the-art facility called Elk Grove down on
23 the Tennessee border. We also have Miami Valley,
24 we have Ocean Downs. We know a lot about and
25 conduct a lot of harness racing. I'm more familiar

1 with Virginia Thoroughbred than I am with Virginia
2 harness, so I have more to learn, our team has more
3 to learn here.

4 One of the statements made earlier and I'll
5 reiterate it. We have some learning to do. We
6 have things we need to understand about the
7 jurisdiction and we don't know much about
8 steeplechase. We know it from the wagering
9 perspective. We carry it on TwinSpires and we take
10 wagering on it, but same with harness, the goal of
11 the harness industry in Virginia, how to best
12 maximize those.

13 Don't know enough about that yet to have a
14 strong view and I'm very open to discussing
15 whatever might be on the mind of the harness
16 leadership in the state because we haven't had
17 those discussions yet, unlike on the Thoroughbred
18 side. We haven't had discussions regarding harness
19 in any great detail so we don't know enough yet to
20 have strong views on it.

21 CHAIRMAN REYNOLDS: Fair enough. Thank you.
22 Commissioners, do you all have any other questions
23 or comments?

24 COMMISSIONER HUDGINS: Thank you for your
25 openness in answering these questions for us.

1 I appreciate that.

2 This is more of a comment than it actually is
3 a question. For many of us, the horse industry in
4 Virginia is in the DNA here. The horse industry
5 needs open spaces and we have those in the
6 southwestern part of the state, but we don't have
7 economic support for the industry there for those
8 people.

9 This is a perfect economic solution to that
10 part of the state that doesn't have the other
11 sources of income that we on the eastern side do.

12 So to the degree that you are successful in
13 racing spinoff is funding the horse industry in
14 general in places that need an economic boost, need
15 to be able to keep their people at home on the farm
16 as the saying goes and do all of the tasks that
17 their ancestors or their parents or grandparents
18 did because it's in the blood and we have space for
19 those that choose to stay for them to do that.

20 So for Virginia, I really feel our job as a
21 Commission is to ensure that whatever we do here
22 with racing affects the whole state, impacts the
23 state in a positive way all residents wherever they
24 may be.

25 One of the economic drivers of course is

1 tourism. To the extent that this track can be
2 built out in a way that appeals to families
3 and new generations of people that maybe don't
4 really understand how racing works but love being
5 where there are horses or just love going out and
6 seeing these animals that have been our history,
7 not getting back to the 1700s, but it really kind
8 of started here, not Kentucky. Just saying that.

9 And we do know Secretariat, the greatest
10 racehorse of all time was born here. I'm just
11 throwing that out because you are a little bit
12 biased on that.

13 MR. CARSTANJEN: Agreed.

14 COMMISSIONER HUDGINS: This is really
15 important to us because it means more than just
16 somebody from a foreign state or small thing that
17 we won't even be related to, Mr. Secretary of
18 Agriculture, and open spaces mean a lot. The
19 industry means a great deal to us and we want to
20 keep it for future generations so you're our last
21 best hope for that.

22 MR. CARSTANJEN: Thank you. Can I comment on
23 that?

24 COMMISSIONER HUDGINS: Sure.

25 MR. CARSTANJEN: You know, that's one of the

1 things -- two comments. That's one of things that
2 we need to be very patient on and think about
3 constantly, and that is, while the legislature has
4 come in from a top down and created a racing
5 program structure which is a very favorable one and
6 will be a successful one, one difference between
7 Virginia and Kentucky is Kentucky kind of came from
8 the bottom up. All this green space, all the
9 infrastructure, the hay farms, the layup farms, the
10 breeding farms, all of that is already there and
11 that's not here as much.

12 That can be here, it will be here and that is
13 the true definition of success of a racing program
14 and that we know this from our jurisdiction,
15 particularly Kentucky, that's what we're driving
16 towards, but it will take cooperation from the
17 regulatory authorities, too.

18 For example, we talked about Virginia
19 certified. Okay. Virginia as a concept for what
20 horses are eligible for incentives, breeder and
21 purse incentives. Okay. Virginia certified as a
22 concept, that makes sense when you don't have an
23 established breeding industry.

24 So if there are horses breeding here, you
25 can't really base your incentive funding on

1 home-breds. You can't do that because their horses
2 haven't been bred here.

3 So I thought the certified approach was a very
4 clever way of addressing it, but we have to watch
5 that and soon we have to start thinking about how
6 to divert some of those funds to Virginia-breds,
7 because if you want to see breeding operations,
8 they can come very quickly. But if you want to see
9 them here, you have to provide these incentives
10 because you're competing with other states, so you
11 have to provide these incentives.

12 So pretty quickly, you have to start looking
13 at things like that because that will bring
14 stallions, that will start bringing breeding
15 activity and then when you get a farm that's a
16 breeding farm, well then a bunch of other stuff
17 starts to develop. Then they want to source local
18 feed. They need layup facilities. There's a bunch
19 of stuff that starts to happen.

20 So the programs around some of the funding
21 that's in the purse account, the programs -- I
22 think all the programs started as the right thing
23 for the moment, but you guys are on a -- we're
24 going to be on an accelerated development schedule,
25 so we have to be looking at these programs to make

1 sure that we've got what's best as we grow.

2 That's why I got into the one about paying
3 purse money to horses winning races out-of-state.
4 I get it. You didn't have race dates so that made
5 sense. That's not going to make sense for very
6 much longer.

7 A Virginia certified program I think will make
8 sense for quite a while, but pretty soon we should
9 be looking at we should be taking some of that
10 money. Because what is the goal? The goal is we
11 want to drive Virginia-breds so that there are
12 farms where people are bringing in mares. There's
13 established stallions here.

14 We want to start seeing those farms develop.
15 When those things start to develop, a bunch of
16 other farms start around them and that's how this
17 thing gets developed.

18 It will take some time, but without careful
19 thought on the regulatory side, it's not going to
20 happen, because if you just stand around with a
21 Virginia certified program, that's all you'll ever
22 have because these other states like Kentucky
23 really understand and are sophisticated about
24 breeder incentives and they're going to beat you
25 because you're not thinking like they're thinking

1 and they understand what owners want in order to
2 come here and buy a farm and get some broodmares or
3 get some stallions. They understand incentives in
4 New York and in Kentucky.

5 So we are going to have the funds here to do
6 these things. We are going to have the funds to
7 compete with New York, to compete very effectively
8 with Maryland, to compete the Kentucky, certainly
9 California. We are going to have the funding
10 mechanisms to do these things, but it will require
11 change.

12 The incentive programs that are in place right
13 now are increasingly designed for the past. They
14 are not designed for the future. So we have to be
15 thinking about how do we modify those depending on
16 what our goals are.

17 I agree with you on what the goal should be.
18 The goal should be not to just focus on the tip of
19 the iceberg of racing, but to try to drive down and
20 get that iceberg below the waterline built out.
21 That means you want mares, you want stallions here,
22 you want some of that activity.

23 No matter how much you pay in purses, that's
24 not just gonna magically appear here. You have to
25 match and be cognizant of the incentive funds in

1 these other states, the incentive programs so that
2 you can compete effectively. You will have the
3 money to do it, it's just the knowledge and
4 the will that we have to keep up.

5 VICE CHAIRMAN SIEGEL: I think that fits in
6 nicely with our mandate to promote the native
7 industry in the Commonwealth, so that's great to
8 hear. Colonial has been a really good corporate
9 partner, particularly in central Virginia and good
10 citizens, not only with their marketing and
11 advertising which is pretty thorough, but with
12 philanthropy.

13 So I just wanted to get Churchill's feeling
14 about philanthropy. Certainly this community and
15 the Commonwealth needs a whole bunch of it, to Mr.
16 Marshall's earlier comment. So I'd just like to
17 see what's the general philosophy of Churchill in
18 that regard?

19 MR. CARSTANJEN: We're extremely philanthropic
20 in our focus. I would divide it into two
21 categories. One is industry-driven philanthropy;
22 horse aftercare, backside education, backside
23 resources. That's one arm. I'd put our record up
24 against anybody's very, very strongly. Very, very
25 philanthropic. Much more so than typical companies

1 of our size.

2 The other is the communities in which we're
3 involved in. For example, with Churchill Downs
4 being in Louisville, Louisville is a very
5 challenged city. We had racial strife, we have
6 poverty, we have all sorts of urban issues and big
7 city issues. So we're very attuned to our
8 community and very focused on the needs and the
9 interests of the communities where we're located.

10 So it's really a two-pronged approach. While
11 we do that, while we're very focused on the needs
12 and interests of our communities, we also never
13 forget our roots in horse racing. Separately but
14 with equal commitment, we're very focused on our
15 philanthropic needs of our industry as a whole.

16 VICE CHAIRMAN SIEGEL: Good.

17 CHAIRMAN REYNOLDS: Are there any other
18 questions or comments from the Commissioners before
19 I turn it over to the public?

20 MR. LERMOND: Mr. Chairman.

21 CHAIRMAN REYNOLDS: Yes, Dave.

22 MR. LERMOND: Bill, I just wanted to speak a
23 little bit to your comments on the Breeders Fund in
24 Virginia. You may or may not know that the
25 Breeders Fund only gets contributions from ADW

1 and bricks and mortar and HHR does not contribute
2 anything to the Breeders Fund.

3 As a result, we're lucky if we have a \$1.5
4 million a year in the Breeders Fund. Those funds
5 can be used for purse supplements in-state and also
6 breeders' awards and stallion awards.

7 As you touched on, the states surrounding us
8 have five, ten, at least times more money.
9 Pennsylvania, for example, 20 million. So at some
10 point, somebody is going to have to come up with a
11 way to get money into the Breeders Fund and it can
12 only either come from the state share or the track
13 share or the horsemen.

14 Not really a question, but that's kind of what
15 we're up against and I think the certified program
16 was a way to at least try to get horses here and
17 receive some ancillary benefits to agriculture that
18 breeding does provide.

19 Hopefully, we can all work together in the
20 future to come up with a way to get some more money
21 into the pot, because that's really -- you're
22 trying to change somebody's behavior. Do I want to
23 breed in Maryland or do I want to breed in
24 Virginia? Unfortunately, a lot of times it's the
25 bottom line.

1 MR. CARSTANJEN: It's the age-old question.
2 It's a question of choice. So deciding as a
3 jurisdiction what we are trying to do and
4 understanding that anything we do we're making a
5 choice.

6 Those are tough discussions because while the
7 pie is going to be growing, it will be growing a
8 lot, it's always a zero dollars sum game. Any
9 money -- the money, you can only take it from one
10 person and give it to another. There's always
11 somebody that's getting and somebody that isn't.
12 But these are all questions you face head-on and
13 you decide as a jurisdiction what is important.

14 For us in Kentucky, given some of the
15 legislative accomplishments we've had, some of the
16 activity, some of the development of the state, we
17 really learned that it's the iceberg as a whole
18 that needs to move. The little bit above the waves
19 can't move independently.

20 So true success in a racing jurisdiction is
21 success below the waterline. So we'll have to
22 figure out how to do that. I don't know all of the
23 answers. I know they're tough questions. If
24 you're not asking those questions every year,
25 you're missing something because this is a

1 jurisdiction that's undergoing a lot of change and
2 very quickly the current programs are going to seem
3 quite outdated given the current circumstances.

4 I'm obviously not an expert in the Virginia
5 incentive programs, but I have been looking at them
6 and reading about them and thinking about them and
7 already I'm pointing out some things where to me
8 they look like they're going to be modified going
9 forward.

10 But they were right for the time, it's just
11 times are changing and that's a good thing. But
12 thank you, David. I definitely think that's a
13 really good point.

14 CHAIRMAN REYNOLDS: Anything else, Dave? I'd
15 like to turn it over to the public and that
16 includes everybody in this room, even the horsemen.
17 Anybody have a question or comment? If you do,
18 please stand up and state your name. I'll start in
19 the back.

20 MR. YOUNG: How you doing? I'm Harrison
21 Young, Director of Racing Services, and I want to
22 ask a question about social licensing to operate
23 and what CDI does to maintain your approach to
24 maintain the, I guess maintain the functionality
25 and the sustainability of the industry with your

1 alls' approach to social licensing and using horses
2 for entertainment and sporting.

3 MR. CARSTANJEN: So the term social licensing.
4 Can you elaborate on what you mean by that exactly?

5 MR. YOUNG: So social licensing is the term
6 used to describe utilizing an animal to the general
7 public for sport, entertainment, for beyond use
8 beside as a pet.

9 Nowadays, the norm of a human being is that,
10 the social norm is that animals are pets. I'm just
11 going on this on the whole labyrinth of everything
12 that's been going on in the country over the last
13 couple of years how you guys maintain to stay under
14 the microscope and the sustainability of you all as
15 a company to do such a great job. What is your
16 alls' approach to that?

17 MR. CARSTANJEN: Thanks for elaborating on
18 that. So I have two prongs of addressing that. I
19 will start with the first. I think the mores and
20 the standard around what is acceptable with respect
21 to animals, it really is changing.

22 I think having sat down with some of these
23 organizations, say PETA or an organization like
24 that, you realize that so many Americans don't have
25 a background that involves any understanding of

1 farms or animals who perform activities for humans.

2 There is a big disconnect, an increasing
3 disconnect in society around that and there is this
4 tendency to want to treat all animals like they're
5 pets. That's not something to fight or to get
6 angry about. That's something we have to accept
7 about a changing country as we go from being rural
8 and agricultural to increasingly suburban and
9 urban.

10 So all that feedback that we get is valid and
11 we have to listen to it and we have to respect it
12 and it kind of ties into what we see with
13 medication reform. You saw that Churchill, you
14 know, we were big proponents of HISA, the Horse
15 Racing Integrity and Safety Act.

16 We think that protecting the horse and
17 listening to these voices out there is really
18 paramount. Take the situation with failed drug
19 tests. It could be a little bit different than a
20 human because a human makes a choice, but an animal
21 doesn't get a choice whether it's going to ingest
22 unhealthy substances in order to make it run fast.

23 So I think the standard in the public eye is
24 even more concern than when they see a human. It's
25 not just the integrity of competition. It's also,

1 hey, you are abusing an animal.

2 So we are very, very strident, we are very
3 focused and we are extremely aggressive with
4 respect to race day cheating or medication abuse.
5 It is something that the American public has no
6 appetite to dismiss or to laugh about and it's
7 something we all need to take seriously because
8 that's an ever-increasing standard that we're going
9 to see.

10 So all of us in the industry have to be
11 careful and cognizant about that and whether we
12 agree every time somebody expresses an opinion
13 there shouldn't be horse racing or there shouldn't
14 be animals raised for food, whatever it might be.

15 Whether we like that opinion or not, don't
16 ignore it because those things run throughout our
17 society more so than ever and we have to make sure
18 we are accounting for them and that we are dealing
19 with them.

20 The best way we can deal with them is to make
21 sure that horses are treated humanely and that we
22 follow through on the rules we have and we have the
23 right rules in place with respect to medication
24 and policing medication.

25 MR. YOUNG: I guess the other part of that,

1 too, is I guess as a company, how does that work
2 for you guys, taking the funds through the HHRs and
3 then designating that back into the safety of the
4 facilities, track, the horsemen on the backside?
5 Just kind of the facility part for the horse racing
6 side, not the gaming facilities, I guess.

7 MR. CARSTANJEN: All that is going to change a
8 lot because HISA, the new federal bill, actually
9 comes with a funding mandate. They're able to
10 dictate some of the funding requirements, so I
11 think it's something we will deal with in Kentucky
12 and Virginia and other jurisdictions.

13 HISA will be able to designate the programs
14 that have to be run and then ask the state how they
15 want to fund them. But it will be a separate
16 structure, probably much more aggressive than
17 inclusive in terms of what's required. And then
18 the funding of that, they will be able to hand that
19 to the Racing Commission and say how do you guys
20 want to fund it.

21 Regardless of how it has worked to date, it's
22 about to change in a pretty material way and none
23 of us fully understand how that will work yet
24 because the FTC just approved HISA as new
25 regulations and we ourselves are just trying to

1 analyze them now. We didn't have them in advance.
2 We don't know exactly what they say. We don't know
3 exactly how they're going to work. We're just
4 figuring out ourselves what they say and how they
5 will be funded. I think it will be a
6 state-by-state thing.

7 The larger point I think going forward that's
8 been taken away from the industry itself. That has
9 been taken away from individual tracks and
10 individual Racing Commissions. That now will be a
11 federal authority that's really dictating the
12 standard and the methodology for policing that
13 standard and then mandating to the state for them
14 to find a way to fund it. So it's changing in a
15 hurry.

16 CHAIRMAN REYNOLDS: Thank you for that
17 question. Frank.

18 MR. CARSTANJEN: Most of you have probably had
19 enough of me right now.

20 CHAIRMAN REYNOLDS: We're getting there, but
21 not yet.

22 MR. PETRAMALO: Your comment about the
23 horsemen shouldn't expect any money from the Urban
24 ONE casino is somewhat distressing for the
25 following reason. The Urban ONE casino site is

1 about two or three miles away from Rosie's
2 Richmond, which is the largest grossing HHR
3 location that we have.

4 Last year, for example, \$1.2 billion went
5 through Rosie's Richmond. We get a sliding six to
6 seven percent from the net there. Now you're going
7 to cannibalize it and not give us anything. That's
8 a cause for concern.

9 MR. CARSTANJEN: So first, we don't control
10 Urban ONE, okay. So that's not something that --

11 MR. PETRAMALO: CDI was supposed to build it
12 and operate it.

13 MR. CARSTANJEN: I understand P2E was.

14 MR. PETRAMALO: Excuse me. P2E.

15 MR. CARSTANJEN: P2E was not the owner of the
16 common stockholder. P2E had a series of service
17 agreements with it.

18 MR. PETRAMALO: Correct.

19 MR. CARSTANJEN: Right. So the first thing to
20 establish is you need to understand that's one of
21 those licenses like the other four independent
22 casinos that are down south and it's not controlled
23 by P2E and it's not controlled by Churchill.

24 MR. PETRAMALO: You're going to be getting
25 revenue from it though, correct?

1 MR. CARSTANJEN: If we provide services to it.

2 MR. PETRAMALO: Well, if you operate it,
3 you're not going to do it for free.

4 MR. CARSTANJEN: Yes, if those things all
5 happen. They haven't happened yet.

6 MR. PETRAMALO: Correct.

7 MR. CARSTANJEN: If we do this transaction,
8 that is something we would like to get the
9 opportunity to do, but we don't have it
10 automatically.

11 MR. PETRAMALO: Assume for the sake of
12 discussion that you do get it.

13 MR. CARSTANJEN: Yeah. Again, we don't own
14 it. So your revenue for the state for the horsemen
15 and the owners comes from the HRMs.

16 MR. PETRAMALO: Yes. That's correct.

17 MR. CARSTANJEN: Right. So the ability to
18 take those -- perhaps it doesn't impact Richmond in
19 any material way and it makes sense to leave all
20 those machines there or perhaps those machines at
21 the Richmond Rosie's need to be reallocated.
22 That's a discussion of where is the optimal
23 placement of those machines and that's a great
24 right to have within the state that you can go
25 optimize them.

1 But the revenue source for the horsemen in
2 Virginia is really driven through ADW, it's driven
3 through HRM. That's where it comes from. It
4 doesn't have a revenue source from those
5 independent casinos. Whatever is on the table now,
6 we won't be controlling the equity of those
7 casinos.

8 You're not losing anything that you had,
9 right? You're not losing anything that you had
10 with P2E. You're not by nature picking up
11 something either.

12 MR. PETRAMALO: It's being cannibalized. If
13 we've got 700 machines there that are generating
14 \$1.2 billion which we share and all of a sudden
15 those 700 machines either go someplace else or you
16 shut them down because you've got a casino two
17 miles away that you're operating for revenue, we're
18 getting screwed.

19 MR. CARSTANJEN: I don't know. I think the
20 legislature gave you a tremendous gift with 5,000
21 HRMs and a company, whether it be P2E or Churchill
22 Downs to actually go spend the capital to deploy
23 those, I don't know that you're getting screwed.
24 You've been given a franchise by the Commonwealth
25 of Virginia that's generating a lot of revenue you

1 didn't have and hasn't cost you a dollar to go get
2 it.

3 So you have a great thing. Let me just
4 finish. Whether it's Urban ONE or you know it's
5 possible, it's a discussion in the legislature, it
6 might not be Urban ONE. It might not go to
7 Richmond. It might go to another community.
8 Whatever happens there, it looks like it'll be a
9 deployment of a fifth license that may be something
10 that has to do with us and it may be something
11 completely independent of us. We don't know yet.

12 There's a possibility that it provides some
13 level of cannibalization of the Richmond facility,
14 but unlike every other construct that I've seen in
15 the United States, at least in the state of
16 Virginia there's a chance to deploy the machines
17 across the states if you can get a local referendum
18 done in the community you want to deploy them in.

19 This is life in the big city. This is what
20 competition is like in the gaming states. The
21 Commonwealth of Virginia did not promise the
22 horsemen or you, Frank, absolute unfettered right
23 to maximize your return from HRMs. They gave you
24 an opportunity and a tool to compete and that's a
25 great thing. You should be grateful to the

1 Commonwealth that you have that right, but
2 expecting to get something from any of the license
3 holders of the independent five licenses, I mean I
4 don't know why you would expect that.

5 MR. PETRAMALO: Let me give you a little
6 history here. When the issue of casinos was before
7 the legislature, we obviously, the horsemen, had
8 some notion of getting a share of that casino
9 revenue the way our colleagues over in Maryland do.

10 Well, the P2E people, including Brent Stevens
11 and Jonathan Swain, absolutely hit the ceiling.
12 They said, no, no, no, no. You can't do that.
13 We'll take care of you. We'll take care of you.
14 That's what I'm talking about. Who is going to
15 take care of us when now this casino down the
16 street is really eating into what we depend on for
17 purses?

18 MR. CARSTANJEN: Five thousand HRMs are going
19 to take care of you. Again, Frank, with Churchill
20 stepping into this deal, you haven't lost anything.
21 P2E doesn't have some right that we're expanding
22 upon. All we can do is step into their shoes.

23 So we can't change the construct. We can't
24 change the past. I think almost every state in the
25 Union would be happy to have the construct Virginia

1 has with respect to HRMS and the way they're
2 structured and the way they support the horsemen.

3 But Churchill coming into the Commonwealth
4 isn't going to create a new construct or new right
5 that doesn't exist. We have to step into the
6 rights that we get from P2E and nothing is changing
7 on that if we're successful.

8 We have to still reach an agreement with Urban
9 ONE and have that transfer, but nothing has been
10 lost to the horsemen. There isn't anything
11 different, but you haven't not gotten
12 something new because we're coming in. We're not
13 at liberty to do that.

14 Any beef you have with the way the licenses
15 work for the independent casinos in Virginia,
16 that's between you and the past and you and the
17 legislature. We didn't have anything to do with
18 those rights. We're stepping into P2E's shoes now
19 and all those issues have been settled.

20 MR. PETRAMALO: Well, what I'm telling you is
21 what P2E told us what was in their shoes when they
22 said you guys stay away from casinos and trying to
23 get a piece of that action. We will take care of
24 you. Don't worry about it.

25 MR. CARSTANJEN: Okay.

1 MR. PETRAMALO: And we were foolish enough to
2 agree, I guess.

3 MR. CARSTANJEN: I couldn't comment on any
4 discussion you had with P2E. John, you want to
5 comment?

6 MR. MARSHALL: Yes, please.

7 CHAIRMAN REYNOLDS: Let's try to tie this up,
8 please.

9 MR. MARSHALL: Just on a brief note, Frank.
10 This is a personal note. I've been asked by
11 several folks in the industry, John, what's gonna
12 happen to your revenues at Rosie's Richmond if the
13 ONE casino opens? My answer has been they go up.
14 People pause and say, How could they possibly go
15 up?

16 well, the learning from our marketing program
17 are we understand our main demographic are females
18 55 plus. We've been very open about that. We also
19 know where our revenues come from; the mile radius
20 from the property.

21 The feeling is that the Urban ONE model is
22 built for high energy entertainment with table
23 games, with rooms. Our guests, females 55 plus,
24 are looking for convenience, not necessarily
25 wanting to navigate parking garages, escalators,

1 millennials at table games, concert traffic
2 and things of that nature. But we do think the ONE
3 casino is instrumental in introducing gaming to yet
4 another new audience that Rosie's may be more
5 convenient for.

6 On the record with that now, it was
7 conversation in the past. With respect to
8 conversations with Brent or Jonathan related to
9 involvement with the other license categories, I
10 don't know about those, but if those are --

11 MR. PETRAMALO: There are three people who sat
12 there; Jeb, Debbie and myself.

13 MR. MARSHALL: Okay. That's a matter we would
14 want to speak to Brent and Jonathan about.

15 CHAIRMAN REYNOLDS: Try to move this along.
16 Finish your comment but --

17 MR. PETRAMALO: I was going to say, John, I
18 understand what you're saying, but surely you don't
19 stand there and say that the Urban ONE casino two
20 miles away is not going to have any impact on the
21 \$1.2 billion. That doesn't make any sense.

22 MR. MARSHALL: I stepped forward and made a
23 comment that our revenue will go up, and in that
24 scenario, whether it will or not, time will tell,
25 but that's my prediction.

1 MR. PETRAMALO: Fair enough.

2 CHAIRMAN REYNOLDS: All right. Thank you,
3 Frank. Anybody else in the audience have a comment
4 or question?

5 MS. EASTER: I think maybe some of the issues
6 that were brought up today, and certainly being one
7 of the folks that came up with the certified
8 program, we have reasons why we did it and all
9 that, but I think we've talked to the Commission
10 about a five-year plan. We had a very successful
11 five-year plan that ends in 2022 and we've already
12 discussed with our facilitators maybe we should
13 have that go again.

14 I do think that nobody can take ownership of
15 anything and expect it to be the same today as it
16 was yesterday and we should listen to some of your
17 ideas about what should -- It doesn't mean it's
18 necessarily right for Virginia, but we all need to
19 be involved in those plans and I think one of the
20 biggest worries about a company like Churchill
21 coming to Virginia is Churchill is going to
22 institute their plans in Virginia.

23 Certainly, I hate when we pay incentive money
24 during the Colonial Downs meet to out-of-state
25 folks. I can't stand it, but you have to realize

1 what that program in the short term has done for
2 the infrastructure and farms and agriculture in
3 Virginia.

4 One of the things that we've learned here and
5 you Commissioners should be aware of, and this is
6 why we should all be sitting down, is we don't have
7 year-round racing in Virginia, so this helped
8 turn -- one of the beauties about that program is
9 it helps turn -- we have year-round business now in
10 Virginia that we didn't have before.

11 Now, should we improve it and should we change
12 things? That's a possibility, but I do think
13 whether it's before the June meeting or not, we all
14 should sit down and we should have Commissioners
15 involved, Churchill involved and the VEA because
16 things do work differently here in Virginia and we
17 want to make sure things go right going forward for
18 Virginia, not just for Churchill.

19 MR. CARSTANJEN: So two quick thoughts on
20 that. One, please rest assured we know we're not a
21 Virginia company. We're a Kentucky company and we
22 have a lot to learn and we're gonna listen and
23 we're going to be good partners.

24 So please rest assured you have my personal
25 commitment on that. We won't be trying to change

1 programs like this without -- I don't know what the
2 evidence will actually lead to. It's not that we
3 just make these comments. You have my word on
4 that.

5 Secondly, I thought the program, as best as I
6 could reason for why it existed, I think I
7 correctly guessed why it was set up the way it was
8 made perfect sense. It's just this is an
9 accelerated growth, an accelerated change in
10 environment.

11 So my larger comment wasn't that say the
12 certified program is wrong for the current or the
13 past. It was we really have to look at that going
14 forward because things are changing in a hurry and
15 every time we add 1,000 more machines, we pick up
16 ten more race dates and pretty soon as you approach
17 that 50 race dates, that is a pretty decent
18 substantial amount of racing and you have to look
19 at programs like this to make sure you get what you
20 think you're getting from them. That was my larger
21 point.

22 Because of the value of the HRM program and
23 what it does for this jurisdiction, it's creating a
24 rapid acceleration in growth and relevance which
25 we're now going to turbo charge with our ability to

1 introduce some of our other assets in the company
2 to bring Virginia racing more to the forefront and
3 with that we want to look at these programs.

4 MS. EASTER: And I 100 percent agree, but we
5 have a history of having up to 50, even more dates
6 of racing days in the past when Colonial first
7 opened.

8 And once again, that did not build the
9 industry. Those 50 days of racing plus did not
10 build the industry in Virginia, and you know, one
11 of the reasons is that purse money doesn't usually
12 stay in the state, doesn't usually stay in the
13 region and those are things we've got to think
14 about and build on --

15 MR. CARSTANJEN: The breeder incentive
16 programs.

17 MS. EASTER: -- and make sure. Right.
18 Breeder incentive programs are great. You're
19 singing to my board so we love it, but we have to
20 make sure that regional -- we're in a regional
21 breeding situation here, not Kentucky where the
22 Jockey Club has established rules that keep a
23 monopoly of things going on in Lexington, Kentucky.

24 But I think this is what is important. I
25 think, boy, you all know more about the industry

1 and I think I just want to reiterate I think that a
2 five-year plan with everybody involved is nothing
3 that could be more positive for Virginia.

4 CHAIRMAN REYNOLDS: If I'm correct, I think
5 we're talking about that you all are going to do it
6 and want to include new ownership so we look
7 forward to that.

8 Are there any other questions from the public?
9 Excuse me. Tad.

10 MR. BERMAN: Thank you. Mr. Carstanjen, I
11 have two comments and one question. I agree with
12 you wholeheartedly about the certified program. I
13 have objected to that program since its inception.
14 All the money going out of state should be retained
15 here to help grow our own racing program.

16 I suggested that instead of spending that
17 money on paying purses out of state, we use some of
18 that money to provide breeding incentives for
19 people to buy mares and drop foals and to increase
20 our pool of horses. Right now, we had --
21 Ms. Easter can probably correct me, but we're
22 looking at about 100 horses a year now, so we
23 definitely need to improve that.

24 Another comment I have is I heard the
25 discussion with you and Mr. Petramalo about them

1 wanting you to contribute from Urban ONE. I was
2 there the day the casino bill got out of the Senate
3 and I remember Jill Vogel going over and making a
4 plea for an additional 2,000 machines to compensate
5 the horsemen for the competition that was going to
6 exist in the future.

7 So I kind of have a problem with that
8 argument. I think you already got an opportunity
9 to recover that money with the additional 2,000
10 machines.

11 The other question I have for you,
12 Mr. Carstanjen -- Is that correct?

13 MR. CARSTANJEN: That's correct.

14 MR. BERMAN: Okay. I saw you in the paper
15 quoted a few weeks ago and I heard you again today
16 reiterate that your goal was to have 50 days of
17 live racing. For 22 years, I've advocated for more
18 live racing on behalf of the public.

19 My problem is what I want to know is how did
20 you come up with that vision? Why 50? Why not
21 more? We're going to need more than 50 to have a
22 robust racing program here in Virginia.

23 I know that originally, there was discussion
24 when the rules and regs were written about the
25 Governor recommended one day of racing for every

1 100 machines. It appears to me that that's the
2 formula that you're using to come up with the 100
3 days of racing, but that's not sufficient.

4 If Churchill is just coming here to give us
5 the bare minimum 50 days and they're looking at
6 making over \$400 million a year in profit from the
7 slot machines, I don't think that's a good deal.
8 I think we deserve more.

9 MR. CARSTANJEN: Thank you for those comments.
10 There's a lot to unpack there and I want to unpack
11 it.

12 MR. BERMAN: The other thing, if I can
13 interrupt again. Don't we have 3,500 horses in
14 that certified program now?

15 MS. EASTER: Yes.

16 MR. BERMAN: They can go anywhere, not just
17 Maryland. West Virginia, Jersey. They can go
18 anywhere and win that money and it's increasingly
19 getting more and more out of control. So that
20 program needs to be scaled back.

21 MR. CARSTANJEN: Thanks for all of those
22 comments. You covered a bunch of ground and I
23 followed all of it and I think there's a lot to
24 what you said. Let me comment on the particular
25 question you had for me.

1 It ties into a couple questions or thoughts
2 that have been expressed by others in the audience.
3 Five-year plans. The truth is with a company, I
4 never do more than three-year plans. We do one and
5 three-year plans because we just found that too
6 much changes such that you have a five-year plan,
7 but by year two or three you're revisiting your
8 five-year plan.

9 So five-year plans, ten-year plans make people
10 feel good, but in terms of actually matching
11 reality, sometimes reality is a little better,
12 sometimes it's a lot worse, but usually you're
13 doing a plan of one to three years. You're
14 revising a one-year plan and a three-year plan.

15 I used the 50 days because that's right there.
16 I know we're gonna deploy the machines. I see how
17 the purse money works. I know that will be there.
18 we'll have to work as we get to 50, so that's a
19 very near-term thing. As we build the Rosie's and
20 deploy the rest of these machines, that's a very
21 near-term thing. That's really sort of as fast as
22 we can run for a construction process and we know
23 what the purse money ought to look like based on
24 what we see now.

25 That's not the ultimate goal. That's the

1 immediately obtainable goal. We have to balance
2 something else as we get to that 50, such as what
3 are our field size expectations and how is that
4 going to work.

5 It's a big deal to go from 22 days to 50 days
6 over two to three years. Here on the eastern
7 seaboard, you have these other jurisdictions with
8 the horses, but you have to prove that you can pull
9 them out of their jurisdiction. Not just a van
10 down for the day, but to actually set up a barn and
11 participate in your racing program consistently.

12 So you can outrun your supply lines, you pay a
13 bunch of purse money and have a bunch of days
14 and have no horses to do it. This is not an
15 indication that we will stop at 50 or that's the
16 ultimate right answer. This is just that's right
17 there. That's attainable. That's a sure thing.

18 Like I said when I started, anything I say
19 today, I want to make sure we deliver on. I know
20 we will deliver on that. Hopefully, and I'm pretty
21 confident that will be the case. That'll be the
22 first step.

23 Along with that step will come a bunch of
24 other things that will be modified or changed for
25 it to work. We'll be looking at things like the

1 certified program. we'll be looking at things like
2 breeder incentives. we'll be looking at things
3 like stalls, allocations. There's a lot of stuff
4 that goes into running a long race meet and let's
5 take it one step at a time. It's a pretty
6 significant step and we'll get there pretty
7 quickly.

8 So it's not a promise that that's the end of
9 it, that's all we ever want to do. That's just
10 that's a media term and as soon as we get towards
11 that, we'll find a lot of stress on some of these
12 other programs that we have here because there will
13 come a point where the certified program isn't
14 doing what we need it to do.

15 The idea of running 75 race days in the
16 Virginia jurisdiction without a competitive
17 breeding program or competitive breeder incentives
18 doesn't happen. we'll have to move locks down.
19 Everything will have to be changing at the same
20 time, but I do feel that is our future. These
21 things will happen and the state will be able to
22 sustain lots and lots of race days.

23 Thank you for that comment though. That was a
24 great synopsis of a bunch of things we talked
25 about. So thank you.

1 CHAIRMAN REYNOLDS: Bill, I want to thank you
2 --

3 MR. CARSTANJEN: Had enough.

4 CHAIRMAN REYNOLDS: -- for taking all the
5 fire. Everybody asked great questions and had
6 great comments. I appreciate your presentation and
7 we look forward to working with you and your team
8 between now and June 8th and I'm sure we'll be in
9 touch. You may sit down now. You're done.

10 MR. CARSTANJEN: Thank you, all the
11 Commissioners. I appreciate your time.

12 CHAIRMAN REYNOLDS: We'll have Commission
13 comments or do you have another question?

14 MR. CARSTANJEN: Thanks to all of you for your
15 questions and support and ideas. Thank you.

16 CHAIRMAN REYNOLDS: Thank you. Now we go to
17 Commissioner comments, which we usually do at the
18 end of a meeting. I'll start with Commissioner
19 Nixon.

20 COMMISSIONER NIXON: As you just mentioned, I
21 want to thank you for taking the time to answer all
22 of our questions. I look forward at our June
23 meeting hopefully to have more ideas on the plan,
24 three- to five-year plan moving forward in
25 Virginia. Thank you.

1 CHAIRMAN REYNOLDS: Commissioner Tanner.

2 COMMISSIONER TANNER: I'd like to second that
3 thank you for sharing your ideas with us. I'd also
4 like to thank all of the members of the media and
5 representatives of the various parts of the
6 industry who introduced themselves because this is
7 only my second meeting. It was good for me to
8 learn as well and thank you all.

9 VICE CHAIRMAN SIEGEL: Unlike my fellow
10 Commissioner next door, I've been here a long time.
11 I'm the one that won't go away. I've been
12 encouraged, Bill, by everything you've said with
13 regard to growing the racetrack, race days, and I
14 have been accused by my wife of being a man of few
15 words, I just keep repeating them.

16 Most of the folks here are sort of tired of
17 hearing me say that the fan experience has been
18 lacking. When they're here, they put on a great
19 show; people enjoy themselves. But running at 1:30
20 in the afternoon Monday, Tuesday and Wednesday
21 doesn't work. Most people with a job aren't here.

22 The handle at the track as well as the
23 attendance dropped in half from the 2019 high and
24 we talked a lot about it and I've said publicly I
25 wouldn't support that again.

1 I think it's important that we mix it all up
2 and get lots of fans out here to enjoy the show as
3 you put on in Louisville and I think we can aspire
4 to do that as well.

5 CHAIRMAN REYNOLDS: Commissioner Hudgins.

6 COMMISSIONER HUDGINS: Well, I have to say I
7 feel a whole lot better now after hearing the
8 answers and the questions and your comments and I
9 am an optimistic person by nature, maybe too much
10 so for some, but I really feel that you are open to
11 working as a team because this is really what these
12 folks do very well here.

13 They do work as a team and they've gotten a
14 lot accomplished because of that and I think you
15 respond well to that and I think the future, it
16 looks pretty bright right now and I'm hoping for
17 that to be the case.

18 There's only one thing I'd like to say that
19 you really need to be very cautious of you may not
20 be aware of, or you might be. But in case you
21 aren't, Jill is our bell whether and when she's not
22 happy, we're not happy. So just be aware. Thank
23 you.

24 MS. BYRNE: But I'm usually happy, right?

25 CHAIRMAN REYNOLDS: Absolutely. I'll wind up

1 with my comments. I have been on this Commission
2 probably 12 years. Back in 2014, I was Chairman
3 and the horsemen's groups and the track didn't see
4 eye to eye on almost anything and obviously, the
5 rest is history and I've been so pleased in the
6 last couple of years that the horsemen's groups
7 and Colonial Downs seem to get along.

8 I know like I said earlier they don't agree on
9 everything, but it's a great working relationship.
10 It helps me sleep at night where I wasn't in 2014.
11 I love seeing that.

12 I know that you all have some negotiations
13 coming up with a contract expectation at the end of
14 this year and I really hope that -- there will be
15 some disagreements, but I hope that you all come up
16 with a good contract that works for everybody and
17 that you all can get along as well as these folks
18 are getting along today. So that's what I hope
19 for.

20 I'm very optimistic. I appreciate you coming
21 today and I feel pretty good about this, but the
22 devil is in the details. But thank you all for
23 coming and that's the end of my comments.

24 Dave, do we need to go into executive session
25 today?

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MR. LERMOND: No, sir.

CHAIRMAN REYNOLDS: Good, because I haven't eaten. With that, I would entertain a motion to adjourn.

VICE CHAIRMAN SIEGEL: So moved.

COMMISSIONER HUDGINS: Second.

CHAIRMAN REYNOLDS: So Mr. Siegel and Ms. Hudgins second.

VICE CHAIRMAN SIEGEL: Yes, sir.

COMMISSIONER HUDGINS: Yes.

CHAIRMAN REYNOLDS: Okay. All those in favor, say aye.

NOTE: The Commission votes aye.

CHAIRMAN REYNOLDS: Any opposed? It's unanimous. We're adjourned. Thank you all for coming today.

NOTE: This concludes the meeting of the Virginia Racing Commission at 1:30 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 1st day of June, 2022.

Sandra G. Spinner

Sandra G. Spinner
Court Reporter