

1 **VIRGINIA RACING COMMISSION**

2 November 7, 2012

3 10700 Horseman's Road

4 New Kent, VA 23124

5 Commencing at 10:06 a.m.

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COMMISSION MEMBERS:

Stuart Siegel, Chairman

10 J. Sargeant Reynolds, Jr., Vice Chairman

Carol G. Dawson

11 David C. Reynolds

Stran L. Trout

12

13

COMMISSION STAFF:

Bernard J. Hettel, Executive Secretary

14 David S. Lermond, Jr., Deputy Executive Secretary

Kimberly M. Carter, Office Administrator

15 Joseph M. Roney, Director of Security & Operations

C. Richard Harden, DVM, Equine Medical Director

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ATTORNEY GENERAL'S OFFICE

Joshua E. Laws, Esquire

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1 CHAIRMAN SIEGEL: Good morning, everyone. We
2 will call to order the November meeting of the
3 Virginia Racing Commission. We're hopeful that
4 Mr. David Reynolds will join us. He's not here yet.
5 We have a quorum and the meeting will begin.

6 The first item on the agenda is the approval of
7 the minutes from the September 20th meeting, which
8 are in your books behind Tab One, and they have been
9 distributed, so hopefully you've read them, and the
10 Chairman will entertain a motion to approve.

11 MR. TROUT: Mr. Chairman, I so move.

12 MR. S. REYNOLDS: Second.

13 CHAIRMAN SIEGEL: Okay. Any discussions,
14 deletions, questions? If not, we'll deem that they
15 are approved.

16 NOTE: There is no response.

17 Commissioners' comments. Does any commissioner
18 wish to comment about any issue before we move
19 forward?

20 NOTE: There is no response.

21 CHAIRMAN SIEGEL: Hearing none, we'll move
22 right into the executive secretary's report. Hold
23 on one second. Here comes David right now. Just
24 wait for him. You owe \$10 for being late. Goes
25 into the purse structure.

1 Anyway, we'll move into the executive
2 secretary's report. I'd like to first welcome
3 Mr. Hettel back to Richmond. His wife is making
4 progress with her recent illness, and hopefully,
5 she'll soon be on her way to a speedy recovery.
6 It's nice to have you here.

7 MR. HETTEL: She is enjoying her Richmond
8 visit. She's a Virginian by heritage. Her mother
9 actually grew up in Richmond and went to school,
10 both at John Marshall High School and University of
11 Richmond.

12 And last night, last couple nights, we went
13 riding and looking at different places they used to
14 live, and so forth, so she's enjoyed it, and while
15 we're doing it, we're looking for a house. So I'm
16 trying to get her to move down the street from Dave
17 in the fan. I think that's the loveliest part of
18 Richmond.

19 CHAIRMAN SIEGEL: Dave will have to lend you
20 the money.

21 MR. HETTEL: I'll just move in with him. Maybe
22 I can just rent the bottom floor. At any rate, I
23 want to thank everybody for all their kind wishes,
24 and the staff for being so supportive and helpful
25 through this trying time.

1 Other than that, also, I think we can move on,
2 Mr. Chairman, to the stakeholders, and I'm happy to
3 report we had an excellent meeting on Monday
4 concerning the Thoroughbred dates for next year, and
5 I'll let Colonial Downs present the dates request
6 and any comments from the VHBPA.

7 CHAIRMAN SIEGEL: Well, that's your report.
8 That's good.

9 I understand there has been an agreement
10 reached, which is a good thing. I don't think this
11 commission wanted to do it for you, and I'm not sure
12 anybody would have been happy with the results,
13 including us, so it's great when you guys can get
14 together. If the Republicans and Democrats and
15 Congress and White House could do that, maybe that
16 would be a good thing.

17 Mr. Hettel played his part to be Henry
18 Kissinger, I understand, and it was -- we made some
19 progress, hopefully.

20 So who is gonna present? And Stephanie also
21 was involved in that, as well as the other folks
22 always at the table.

23 MR. STUART: Well, I got a couple thoughts for
24 you this morning.

25 CHAIRMAN SIEGEL: Okay.

1 MR. STUART: We filed an amended race day
2 observation for the 2013 race days and have come to
3 a negotiated agreement with VHBPA.

4 The request reflects five days -- five weeks of
5 racing with racing occurring five days a week,
6 Wednesday through Sunday. The meet will begin
7 June 8th and conclude with the Virginia Derby on
8 July 13th. We agreed to reduce the purses of the
9 Turf Cup by 200,000 and the Derby by 100,000 in an
10 effort to increase overnight purses.

11 I'd like to point out that this agreement is a
12 compromise. It does not represent a solution to the
13 challenges to Virginia racing. The major problems
14 identified in our original race day requests still
15 remain; namely, our product is weak. It does not
16 sell well in the market place. The handle doesn't
17 lie. The public is voting with their wallet.

18 We've talked many times about quality racing,
19 but I'm sure to many this is kind of a nebulous,
20 abstract concept.

21 Its been suggested in this forum many times
22 that the critical element of generating handle on
23 live races, both for the track and simulcast, is the
24 size of the field. If this is accepted as true,
25 then the nature of the horses becomes much less

1 important than the number. If we can put 12 horses
2 in the gate, then it doesn't matter then what sort
3 of record those horses have.

4 While I will not deny that there's a
5 correlation between handle and field size, I would
6 suggest that perhaps (inaudible) as large as the
7 trade.

8 Consider this: Suppose we're all gonna go try
9 to pick winners at the racetrack. Because this is
10 pari-mutuel wagering, we are not competing against
11 the track, but against the other betters. This
12 includes people that have studied racing their
13 entire life.

14 There's a tremendous amount of knowledge
15 available on quality race horses. Experts know how
16 each horse runs under virtually any condition or
17 combination of conditions. They can study race
18 results, workouts, and watch videos of races to pick
19 up things that are not on the charts. They study
20 the breeding.

21 People who are trying to make a living picking
22 horses work hard at it. It is no different than
23 becoming an expert at anything. It takes hard work.

24 What kind of race are they looking for to wager
25 on? They're looking for a race with lots of data,

1 because analyzing data is their edge in competing
2 with anyone else. When they find that race where
3 their knowledge gives them an edge, they tend to bet
4 a lot more than the casual better.

5 Let's look at a couple races. I'll pass
6 something out here. Bernie, I might have to do this
7 one on memory.

8 MR. HETTEL: Okay.

9 MR. STUART: What Jim's handing out is the
10 program for last year's Turf Cup. If you take a
11 look, these horses run a number of times. For
12 instance, the number one horse ran 21 times. The
13 number two horse ran 36 times. The number three
14 horse ran 36 times. Four horses run 12 times, and
15 on, and on, and on.

16 Basically, as I said, these horses have all run
17 a number of times. There's a lot data out there
18 about these horses. An expert can analyze the data
19 prior to the race and make an informed decision.

20 Now let's contrast that with a situation at the
21 racetrack where some folks are up in the suite,
22 they're having a good time, they're having a few
23 drinks, they're enjoying some good food.

24 It's ten minutes to post time. Somebody goes,
25 "Well, who do you like at the Turf Cup?" They go,

1 "Gee, I don't know. Let me see the program." They
2 pick up the program, they open it up, they look at
3 all this and go, "Oh, my God." You know. "Green's
4 my favorite color. I'll take the five horse."

5 Who has a best chance of picking the winner in
6 this scenario? Clearly, the person who has analyzed
7 the data before the running of the Turf Cup. The
8 experienced better.

9 Now let's look at some of the other things.
10 This happens to be a maiden claiming race we ran on
11 June the 29th. The fact that it's a maiden race
12 means none of these horses have ever won, and the
13 fact that it's a claiming race means that you can
14 buy any of these horses for \$5,000.

15 Start to look down these horses. The one
16 horse, for instance, has run five times and never
17 one, and in its last race out, it finished 15
18 lengths back.

19 The next horse run seven times, never won.
20 Third horse run four times, never won. Its last
21 race, it finished 19 lengths back, which was better
22 than the race before that, where it finished 21
23 lengths back, which it is better than the race
24 before that, where it finished 24 lengths back.

25 Next horse run five times, it finished 18

1 lengths back. The five horse, run three times, last
2 time finished 30 lengths back. The six horse --
3 this is kind of interesting. We've never seen
4 something -- maybe I'm not that experienced at it.
5 But the second-to-last race, it finished 63 lengths
6 back. I guess it finished.

7 MR. PETRAMALO: I've had horses further back
8 than that.

9 MR. STUART: Oh, okay. Well, I defer to your
10 experience; no question. The seven horse run seven
11 times, never won. Got the ten horse run 14 times,
12 never won. Last time out was 28 lengths behind.
13 Eleven horse, 12 times, never won. Last time out
14 was 24 lengths back. You got 12 horse, run 15
15 times, never won.

16 There's not only very little data here in some
17 cases where the horses have never run very much,
18 which means that the expert's edge is not there or
19 greatly reduced, or it's impossible to determine who
20 is sort of the best of the best here.

21 The expert's chances are really not much
22 different than that person up in the suite that's
23 opening up the program and throwing a dart at the
24 wall; so therefore, their edge isn't there.

25 It's not the best option for the experienced

1 handicap, so they look elsewhere to other races.
2 Gamblers are looking for the percentage play, and
3 the percentage play is where they have an edge.
4 They know they won't win all the time, but they play
5 the percentages.

6 So as between races such as the Turf Cup and
7 races filled with horses such as we've described,
8 unfortunately, our product is skewed toward the
9 latter. We've become the base to run your lower-end
10 horse on grass.

11 This is not a distinction that Colonial Downs
12 aspires to. There's not a product that experienced
13 gamers want to wager on. If we fail to attract
14 those wagers, racing in Virginia is gonna have a
15 hard time succeeding.

16 Which brings us to the next point, money. All
17 of you have heard me say on more than one occasion
18 Colonial Downs has lost over \$50 million. I think
19 that fact has almost become like wallpaper at this
20 point. It hangs in the background but attracts
21 little attention. Sooner or later, the parent
22 company will no longer to be able to tolerate these
23 losses.

24 Each year that we proceed without a model that
25 realizes financial success, as well as the success

1 of our other stakeholders brings us closer to a
2 problem. We must find a viable model pretty soon.

3 Finally, if the goal is to promote, sustain and
4 grow the native industry, the Jockey Club report is
5 pretty sobering.

6 Perhaps at some point this morning, Mr. Petty
7 can elaborate on the standard Virginia breeding
8 industry and give us a different perspective. I
9 note that in his e-mail, he's intrigued by the
10 shorter meet, but nevertheless, supported the longer
11 meet as in the prior year.

12 Colonial Downs does not think that preserving
13 the status quo from last year is the answer. We
14 need to raise the quality of racing in Colonial
15 Downs to attract more wagering, which in turn will
16 generate more handle, which will allow us to raise
17 purses and attract more competitive fields. Today's
18 compromise begins to take us down that path. It's
19 not a solution, but it's a start in the right
20 direction of racing horses and attracting quality
21 horses and enhance wagering.

22 CHAIRMAN SIEGEL: Okay. Jim, do you have
23 anything?

24 MR. WEINBERG: No.

25 CHAIRMAN SIEGEL: Thank you, Ian. I think the

1 horsemen might have a comment or two.

2 MR. PETRAMALO: Yes. Let me start out by
3 saying we support the amended requests for the five
4 weeks of racing with five days, for a total of 25
5 days.

6 I do agree with Ian that the industry in
7 Virginia does face problems. We need long-term
8 solutions.

9 I disagree with most of his analysis, however.
10 The quality of horse racing here in Virginia hasn't
11 varied much in the last ten years. There was a Blue
12 Ribbon Commission back in the late 90s and early
13 2000s that came up with some suggestions, including
14 running in the summer.

15 But also, that commission or a subsequent one,
16 there was another one headed by the former chairman,
17 Anne Poulson, said that we want in Virginia to
18 maintain quality racing, and they defined quality
19 racing by an average of \$200,000 per day in purses.
20 We could have run \$100,000 and you'd get very, very
21 poor quality racing. So back in 2002 or 2003, we
22 used that as our metric; 200,000 was quality racing.

23 Over the years, depending on how much money was
24 generated, we determined how many days of racing
25 there would be. We started out with Colonial on a

1 joint venture to expand the OTBs. When we started,
2 there were only four. We eventually got out to ten,
3 and that drove the handle so that by 2008, we had
4 almost nine -- well, we had a little more than \$9
5 million in the purse account.

6 So you take 200,000, divide it into nine
7 million, 45 days of racing. That was the high point
8 in 2008.

9 Then what happened? The bottom fell out of our
10 national economy, which was reflected in the horse
11 racing business.

12 In 2008, there was roughly \$15 billion worth of
13 handle in the U.S. Now, we're down to about ten
14 billion. It's leveling off, so there was a steep
15 drop.

16 Our metric stayed the same. We still were at
17 200,000, but our purse account shrunk so that last
18 year we had roughly 6.2 million. Divide 200,000 in
19 to it, and you get 31 or 32 days, but the quality
20 has always been there. It hasn't changed.

21 It's true that we do have a reputation for
22 running lower-level races on the grass. There is no
23 place else in the country that you can go and run a
24 \$5,000 claiming race or a \$7,500 claiming race on
25 the grass. We can do it because the course is

1 180 feet wide. We can move the rails, et cetera.
2 That's our niche.

3 Now, I agree with Ian that field size is very
4 important. That to me is the key to handle. A
5 gambler, for the most part, whether a professional
6 or just an occasional one, really doesn't care too
7 much about whether the horses run 12 times or 15
8 times, or whether it's sired by Dynaformer or Thumb
9 and a Nickel.

10 The point is, if you got 12 or 14 horses in a
11 race, bingo, you've got opportunities to make money.

12 Now, over the past ten or so years, we have
13 been very fortunate in keeping up our field size.
14 We've always been above eight per race. One year,
15 we were even above nine, but that's the key, to keep
16 field size up.

17 The comparison here -- you know, just being a
18 lawyer, I can't pass up the opportunity to
19 cross-examine here.

20 This isn't a fair comparison here. You're
21 comparing a half million dollar race with stakes
22 horses that are from three to nine years old with a
23 \$5,000 maiden claimer, that for the most part is got
24 horses who are young. They're rookies. That's why
25 they're called maidens. They are three- to

1 four-year-old horses. Naturally, they're only gonna
2 have five or six starts, compared to an eight- or a
3 nine-year-old horse that has been running in stakes
4 races with 20 starts.

5 CHAIRMAN SIEGEL: Some of them had a lot of
6 starts in maidens.

7 MR. PETRAMALO: Yeah. But in any event, let me
8 just summarize by saying I don't really disagree
9 with Ian's notion that we've got to do something
10 about our product here. I don't think that it's a
11 quality problem. We've got to find ways to make
12 this more of a destination where people want to
13 come, and more importantly, want to wager.

14 One of my pet peeves is wagering is too
15 complicated. We now live with tweets and Twitter
16 and fast-ranging movements on computers and iPads.
17 This stuff is what I call geek stuff. I like this.
18 I like to read all this data, but it is very
19 off-putting to get people to come here and sit down
20 for 30 minutes between races and look at all this
21 stuff. We've got to make it more interesting.

22 I've always been intrigued by the notion of
23 having simple bets, odd, evens. I'll bet five bucks
24 on all the odd horses, she bets on the evens. That
25 creates our pool. It's mindless. It's like slot

1 machines. Mindless.

2 But in any event, we had talked before, I'm not
3 sure how far back, about putting together another
4 one of these committees or commissions to do a
5 long-range analysis or engage in some long-range
6 planning about what we should do in Virginia to
7 sustain and promote our industry, and I still think
8 that's probably the best way to go.

9 But I'll end by going back to where I started.
10 We do support the five weeks at five days. We are
11 not happy with it for a number of reasons. It
12 limits the opportunities for horsemen, who are
13 natives to Virginia, as well as those who come from
14 other jurisdictions to race their horses.

15 If you've got a five-week meet, you're gonna be
16 lucky to get two starts out of a horse, and it's
17 difficult to get people to ship their stables from
18 Florida for a short meet where they're only gonna
19 have an opportunity to run a limited number of
20 times.

21 But that said, we're willing to take -- to make
22 this an experimental meet, as some might say, to see
23 how it works.

24 I think Colonial is going to institute a
25 shuttle from Maryland to bring horses here with the

1 increase in purses.

2 Remember, we still got the same amount of purse
3 money, but we're reducing the number of days and
4 we're reducing some of the big purses for the stakes
5 races. That's gonna generate more for the average
6 horse.

7 Now, if we've got people sitting over in
8 Maryland who never come here because the purses are
9 too low, it costs too much to get over here, I
10 suspect with the shuttle and the purses going up,
11 that we will attract more Maryland horsemen here,
12 and of course that's what we're seeking to do.

13 But in any event, it's worth a try. We can't
14 continue doing things the way we have and expect
15 that the result is gonna be different. So with that
16 said, again, we support the amended request.

17 CHAIRMAN SIEGEL: Any other comments from the
18 group regarding that presentation? Jim, do you have
19 anything?

20 MR. WEINBERG: I think it is evident to the
21 Commission that this is a true compromise, with the
22 old adage, no one's particularly happy, but everyone
23 seems to be satisfied, and we'll give it a try.

24 CHAIRMAN SIEGEL: Yeah. I would just suggest
25 that I agree with that as well. I don't think that

1 this -- as Ian said, it's not a solution, but a step
2 in the right direction.

3 I was impressed with your initial
4 recommendation last week, and if you're right, then
5 this reduction of 25 percent in the days and the
6 weeks will prove -- show some improvement. If it
7 does, then we know where we need to go, or at least
8 we have an indicator. If it does not, it may
9 indicate to us that that doesn't work, either, and
10 we may end up going back to more days. So I mean I
11 think we should just look at this more closely after
12 it's done.

13 Any members of the commission wish to comment?

14 MR. TROUT: Just a couple things here. What
15 this does overall, I think the request that came in
16 before we talked about a daily purse of 366,000 and
17 now under this would be 249, and then 2012 was 194,
18 so it's a sixty-some increase over that, but a
19 significant difference of over 100,000 of what was
20 originally proposed.

21 I think you say we comprise, a compromise where
22 everyone is equally dissatisfied and probably did
23 that with the election yesterday.

24 But would an incremental increase such as this
25 produce at least part of the same effect that a

1 major change, a bolder move would in attracting
2 horses? Is that something that anyone has some
3 ideas on?

4 Because you've got the idea was to have a
5 significant increase in the purses, almost doubling.
6 That would attract some higher-end horses, and if
7 you have a, whatever it is, 25 percent so or
8 increase, is that gonna attract 25 percent better
9 horses?

10 You know the horse industry better than I do.

11 MR. PETRAMALO: Let me respond to that. My
12 numbers are somewhat different from Ian's numbers,
13 but the key is to look at the average overnight
14 purse. That means your regular race. Throw out all
15 the stakes races. We have 17 stakes races; they'll
16 be contesting for 1.7 million. That, for the most
17 part, is not the horse industry. That's the crème
18 de la crème.

19 Now, last year, this past year, our average
20 overnight purse was 15,000, a smidgen more than
21 15,000. Under the proposal that is before you now,
22 the average purse will go up to almost \$22,000.
23 I've got it at 21,635; that's a 43 percent increase.
24 That's where all the horse population is.

25 These people who would be running in claiming

1 races and low-level allowance races, that's not bad.

2 That's why I say I think it will probably
3 attract people from Maryland and West Virginia, who
4 wouldn't think of coming here normally, because
5 \$15,000 a race is not gonna do it. But at 22,
6 particularly if there's a free shuttle, changes the
7 metrics.

8 MR. TROUT: Do you think that's enough of an
9 increase to have a significant effect?

10 MR. PETRAMALO: I think it's worth trying.

11 MR. TROUT: Yeah, right.

12 MR. PETRAMALO: I can't definitely say, oh,
13 sure, it's gonna happen. If we tripled the number,
14 I'd be more confident in saying, oh, yeah, this is
15 gonna work.

16 MR. TROUT: This is something where we should
17 have measurable results at the end of the season
18 that will show us, as the Chairman mentioned, which
19 direction it's going in.

20 MR. PETRAMALO: Well, we do track this stuff.
21 The racing secretary's office, for example, knows
22 how many horses ship in.

23 On an average day during this past meet,
24 30 percent of the starters shipped in just for the
25 race and then went back home. Of that 30 percent,

1 about half of them came from Maryland, a quarter
2 came from West Virginia, 11 percent from Virginia,
3 et cetera. So we can keep track of all that.
4 That's not hard to do.

5 MR. TROUT: All of these plans, basically, are
6 dealing with the same roughly 6.2 total amount
7 wager?

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

9 MR. TROUT: That's anything that goes to the
10 Breeders' Fund and all the other funds is based on
11 that amount, so basically, we're not talking about
12 any change in the percentages that get paid out to
13 various groups, including New Kent County.
14 I believe we're in there somewhere. So those would
15 pretty much state the same under all these
16 proposals, if it's 6.2.

17 MR. PETRAMALO: Well, yes. The 6.2 includes
18 Breeders' Fund money that's used for purses. For
19 example, we have a very popular 100 percent bonus
20 program. If you have a Virginia-bred and you're
21 running in open competition, you're running for
22 double the purse. That money comes from the
23 Breeders' Fund. So of the 6.2, roughly three
24 quarters of a million is from the Breeders' Fund.

25 MR. TROUT: Appreciate that. From the track,

1 is this something that you feel would produce at
2 least a measurable result to find out whether it's
3 working or not to that extent?

4 MR. STUART: I think you'd be able to measure
5 it. Obviously, you know, we put our best idea on
6 the table initially, but you know, this is a
7 compromise. It's worth a try.

8 CHAIRMAN SIEGEL: You agree it should show some
9 improvement, if in fact your original proposal may
10 be better, but this will show us at least a signal
11 as to whether fewer days is the way to go.

12 MR. STUART: I think so.

13 MR. PETRAMALO: Let me add something else.
14 There's a factor out there that hasn't been
15 explained, at least to my satisfaction.

16 We suffered a precipitous drop in our signal
17 sale. It was something like almost 30 percent.
18 Wait a minute. I've got the number right here. Our
19 signal sale dropped 34 percent.

20 In other words, we have the live meet here. We
21 generate some on-track wagering, but most of the
22 wagering is off-track; people in Kentucky or
23 Maryland, et cetera. Well, our signal sales dropped
24 34 percent, and I don't know why. The field sizes
25 were roughly the same as they have been in the past.

1 I suspect we lost a little in handle because we
2 went to night racing. Our post this year was at
3 seven o'clock, so by the time you get to the last
4 two or three races, it's 10:30, quarter to eleven.
5 I think that's a bad time for wagering.

6 I don't know whether that's the sole
7 explanation, but it seems to me, addressing that
8 type of issue will also go a long way to boosting
9 our handle, or at least explaining to us what we
10 should be doing differently.

11 Now what Ian has proposed and we support is
12 moving the post time up a little, so we'd start at
13 six o'clock instead of seven o'clock.

14 CHAIRMAN SIEGEL: Yeah.

15 MR. PETRAMALO: I think that would probably
16 help.

17 CHAIRMAN SIEGEL: Good. The proposal calls
18 for, as you mentioned, a van service?

19 MR. PETRAMALO: Yeah.

20 CHAIRMAN SIEGEL: It says one van. How often
21 is that one van?

22 MR. PETRAMALO: Well, in the past, what they've
23 done is picked up in the morning, brought the horses
24 here, and then took them back at night.

25 CHAIRMAN SIEGEL: So it's four or five days a

1 week?

2 MR. PETRAMALO: Yeah. It's every race day.
3 Every race day.

4 CHAIRMAN SIEGEL: Okay. Good. One van each
5 race day.

6 MR. PETRAMALO: Yeah.

7 CHAIRMAN SIEGEL: That might have been in
8 there.

9 MR. PETRAMALO: It costs -- Stephanie can
10 probably tell you better than I can. To ship from
11 Maryland, last I heard, it was around \$500.

12 CHAIRMAN SIEGEL: I understand the reason for
13 doing that. I think it's a great idea.

14 MR. PETRAMALO: Yeah.

15 CHAIRMAN SIEGEL: Have we done it before?

16 MR. PETRAMALO: Yes.

17 MR. WEINBERG: Yeah, when there was a more
18 active involvement, it was a regular component.

19 STEPHANIE: We usually can put 12 to 14 on that
20 van to come down.

21 CHAIRMAN SIEGEL: That's great. All right.
22 Well, any other comments, questions, concerns from
23 any member of the commission or from the general
24 public?

25 MR. PETTY: Mr. Commissioner, the VTA's

1 perspective, I see it's on the agenda, and you
2 mentioned it.

3 Just very quickly. You know, the Breeders'
4 Fund is driven by total dollars, the system, and the
5 number of economic opportunities available to those
6 people, and that's racing days and whatever the back
7 end awards are for breeders and stallion owners.

8 We have the smallest breeders fund in the
9 mid-Atlantic. We have the fewest number of racing
10 days in the mid-Atlantic. To suggest that the
11 industry would do anything but contract, seems to me
12 to be illogical. It literally is what it is.

13 So obviously, we, you know, view this argument
14 from afield and are interested in the outcome, but I
15 don't -- I've said this to the Commission before. I
16 said it in my letter Monday.

17 We haven't found that 30 days or 40 days or 45
18 days will change anything. A \$4 million fund and
19 100 days of races may change something in Virginia,
20 but these incremental changes while these folks try
21 to find a common sense foothold doesn't really
22 impact the overall industry.

23 What's happened in our industry, and its
24 happened everywhere, has nothing to do with any of
25 this, I don't think. Is whenever major breeding

1 farms go out of business, they're never replaced.
2 Their family members don't pick them up.
3 Someone new doesn't come in. This has happened in
4 Maryland, Virginia, Pennsylvania, and on some levels
5 happening in Kentucky.

6 So there's a lot of different factors, so we
7 kind of boil it down to what's the simplistic look
8 at it. The most important thing we have going for
9 the Virginia-bred horse is the 100 percent bonus.
10 That is something that people understand. They get
11 it.

12 If we go in to this meet with a \$30,000 maiden
13 race, if you have a Virginia-bred, that becomes a
14 \$60,000 maiden race. Well, that gets somebody's
15 attention. Now it only gets their attention for
16 five weeks, because, you know, but it's the
17 compromise.

18 So obviously, we want there to be as many
19 racing days as possible so that the people in this
20 room that have Virginia-bred horses have as many
21 opportunities to run and make money.

22 Then you stop and you look at what these guys
23 are talking about, and I can -- if I'm sitting up
24 there and I'm you and I say, well, I can make the
25 horsemen happy, but it's gonna cost the racetrack

1 money. Or I could make the racetrack happy and make
2 them money. It's gonna cost the horsemen money.

3 So with the difference in their economic needs
4 and the economy that we live in, it strikes me it's
5 impossible to make everyone happy. You're stuck
6 with these kiss-the-sister compromises.

7 So we just try to look at how can we make it
8 the best it can be, and it strikes me that 25 is
9 better than 15, and you know, what are you gonna
10 do? This is what -- in this economy, this is kind
11 of where you are.

12 Now, Ian mentioned I was intrigued with the
13 short meet. I was so intrigued with the short meet
14 a couple years ago, I advocated one, and the biggest
15 opponent to it was Tyler, the racing secretary, who
16 convinced me you couldn't fill the races. So maybe
17 now people will figure out how to fill the races.
18 But it has always been a complicated question and a
19 difficult one.

20 I think everyone leaves this room unhappy, but
21 I don't think there's a model we can build that will
22 make everyone happy and not cost somebody a big box
23 of money.

24 I think we'd love to have 50, 60 days where
25 Virginians could double their purse money, and we'll

1 do what we can to help us get there, and I will
2 leave you with this, 'cause this is what I say every
3 year.

4 We're arguing over Christmas. What happens the
5 other 364 days a year is what's critical here and
6 the political process to allow us to make the purse
7 account bigger, Colonial Downs' coffers richer, the
8 Breeders' Fund bigger, is the real name of the game.

9 I realize we're stymied by what's happened in
10 Richmond, and there may not be an answer, but as
11 soon as we get over this battle, let's look back to
12 that one and start to figure out again how we make
13 the pie bigger, because that's how ultimately we
14 grow it.

15 We've sat around here for 15 years and argued
16 about how to cut up the pie.

17 CHAIRMAN SIEGEL: Well said.

18 MR. S. REYNOLDS: I have a question.

19 CHAIRMAN SIEGEL: Go ahead.

20 MR. S. REYNOLDS: I'd like to ask the horsemen.
21 You know, I've read the track letter about the race
22 days and Ian talking about the losses they've
23 suffered over the years, and various parts of the
24 letter, it just talked about, you know, it didn't
25 say anything about closing the track, but just if we

1 didn't make some changes, things were gonna be dire.

2 Nobody's talked about the possibility if we
3 don't make drastic changes, then there's a very real
4 possibility this track could close. Do you all have
5 any comments about that? If this track closed,
6 we've got zero racing days. So obviously, we're
7 trying to compromise and do the best we can, but if
8 we don't do something, the track very well could
9 close, in my mind.

10 MR. PETRAMALO: I look at the financial reports
11 that Jacobs Entertainment files with the SCC
12 somewhat differently from Ian. It's true that the
13 track has lost money; no doubt about it, but if you
14 look at what they consider, at least what they tell
15 the SCC is important, their IBIDA. I will call that
16 cash flow. All the accountants are gonna jump up
17 and down and pull their hair out and say that's not
18 correct, but bear with me. Cash flow.

19 Their cash flow situation is fine. They
20 average -- over the last eight or ten years, it has
21 probably been between a million and a
22 million-and-a-half, which means nobody's shelling
23 out money out of their pocket to run this.

24 But by the time you take depreciation and
25 amortization, bingo, you're doing a negative number.

1 Does that mean the track is going out of business?
2 I don't know. That's up to the owner. The owner
3 has got other gaming interests that are mostly
4 casinos and truck stops. Some of them generate a
5 lot, some of them you say, "My God, why is he
6 hanging on to this casino? It's a dud." But that's
7 their business decision.

8 They did put the track on the market, I think
9 in 2008. I don't know whether that -- I'm getting
10 in trouble here. I don't know whether that was for
11 political purposes or not, but the public
12 announcement at the time was the track can't make a
13 go of it, because the legislature won't authorize
14 alternative gaming, including instant racing. Now
15 who knows what was going on there?

16 But they pulled it off the market. I don't
17 know. You know, we don't downplay the significance
18 of the financial problems in running a racetrack.
19 It's not easy, particularly when you don't have
20 alternate gaming.

21 Charles Town, Penn National, even Philadelphia
22 Park would be in tough shape if they didn't have
23 slot machines. So all I'm saying is it may be a
24 difference in emphasis. Ian emphasized the
25 negative. I say, well, it's not really that

1 negative.

2 MS. BOUZEK: Can I respond to that?

3 CHAIRMAN SIEGEL: Yes.

4 MS. BOUZEK: While utmost respect for Frank,
5 the bottom line does say that we make a million
6 dollars, but it doesn't say that Mr. Jacobs gives us
7 \$2.7 million for capitol improvements. That doesn't
8 show up anywhere in that number.

9 This is my personal opinion; it's not my
10 professional opinion. I speak for me and not for
11 the company. This is probably the first time I've
12 ever been worried for my job.

13 I've watched -- I've gone to meetings with
14 Mr. Jacobs and the upper management and it's tough.
15 It's scary. And he may have a lot of money, but you
16 know, not everybody wants to lose -- you know, every
17 time we ask, it's gonna take \$2.5 million to get EZ
18 Horseplay, the OTBs where they need to be, the track
19 where it needs to go, and guess what? We're gonna
20 make a million two for you next year. I don't know
21 how many of you guys would stay in business doing
22 that.

23 I have a mother that I take care of and I need
24 my job and I'm worried.

25 MR. STUART: You know, you look at financial

1 statements and IBIDA is kind of a, it's a nice word
2 that investment bankers throw around a lot, but it
3 ignores CAPEX, so you gotta subtract that number
4 out, whether you like or not. Call it depreciation,
5 spread it over the years or take it year by year.
6 If you do, the number comes out close to zero when
7 it's all said and done.

8 I think the point is, and I've said this to
9 some other people before. You know, if you want
10 racing to succeed, you have to have a better plan
11 than we're gonna find a rich guy and get him to pay
12 for it. The best plan is to have the thing be an
13 economic success, and then you have a lot of people
14 that want to do it.

15 CHAIRMAN SIEGEL: Last month, we approved the
16 refinancing, and I think in your presentation, you
17 mentioned that the refinancing would give the owners
18 capitol to invest part of in this enterprise, and I
19 do understand exactly what you're saying with regard
20 to what the bottom line might be, but as far as
21 CAPEX is concerned, I think that some of those funds
22 that you talked about putting into the facility in
23 CAPEX, I think is -- may relieve him personally of
24 some of that obligation.

25 MR. STUART: Well, I mean at the end of the

1 day, he's the sole shareholder.

2 CHAIRMAN SIEGEL: Yeah.

3 MR. STUART: Like you say, you talk about
4 IBIDA, and one of the letters in there is the "I
5 word", interest. So when you go refinance, it means
6 you're borrowing the money, so you gotta subtract
7 that out, too. So it isn't a whole heck of a lot of
8 money around. I can promise you that.

9 MR. PETRAMALO: Well, the track does provide
10 some advantage to Jacobs Entertainment. I was
11 looking at the connection with the refinancing. I
12 was looking at the assets. Well, you leave aside
13 the racetrack, the assets of Jacobs Entertainment,
14 its casinos, et cetera, are encumbered almost to the
15 level of 95 percent against debt; the racetrack,
16 eight percent.

17 So I'm saying, well, maybe the racetrack is
18 worth something, because I'm assuming that it's part
19 of the collateral that's pledged for this new loan
20 which makes them from 275 million to 430 million.

21 MR. STUART: I guess I don't follow that.

22 MR. PETRAMALO: Well, if you're looking to
23 borrow money and you're mortgaged to the hilt on
24 these assets over here, you gotta have some assets
25 that aren't mortgaged to the hilt. I'm saying

1 that's Colonial Downs that's carried that 60 million
2 bucks.

3 The debt outstanding, according to the balance
4 sheet that you file with the SCC is \$4.8 million.
5 That's the debt against these 60 million in assets.

6 MR. STUART: That's because all the rest -- all
7 the debt's on the corporate side.

8 MR. PETRAMALO: Well, yeah. That's what I'm
9 saying.

10 MR. WEINBERG: But the lenders, Frank, don't
11 segregate it that way.

12 MR. STUART: Right.

13 MR. PETRAMALO: That's my point.

14 MR. STUART: That's some capitalized leases on
15 some equipment and some OTBs.

16 MR. WEINBERG: I'm suggesting the percentages
17 that you're looking at are not in any way reflected
18 in the lender's mind of how they loan money to the
19 enterprise.

20 MR. PETRAMALO: Well, that's my point. You've
21 got assets that -- you know, the casino is up to the
22 hilt and you've got a racetrack with virtually
23 nothing against it.

24 MR. WEINBERG: No. But what I am telling you
25 is the full amount of the loan is against this

1 property.

2 MR. PETRAMALO: Yes. I understand that. I
3 understand that.

4 CHAIRMAN SIEGEL: But is the loan for other
5 purposes, I guess is what you're saying?

6 MR. STUART: All that's happened is on that
7 balance sheet, they segregated out some individual
8 debts that pertain to individual entities. So we
9 have loans that are capitalized leases, basically,
10 that are against some of our assets, but all the
11 assets of Colonial Downs are pledged against that
12 loan.

13 MR. PETRAMALO: No. I understand that.

14 CHAIRMAN SIEGEL: Yeah.

15 MS. BOUZEK: Well, I don't care how much money
16 he has. He could have as much money as God, for all
17 I care, but if he doesn't wanna have a racetrack
18 anymore, that scares me to death.

19 I watch what else is happening in Louisiana and
20 Nevada and Colorado, and I'm talking to my
21 counterparts, and when this gets to be, you know, a
22 gnat on the shoulder because -- you know, we lose.

23 It's scary. It's scary on a personal level.
24 I've gotta go out there with the -- lay off people
25 every day. Today's another day coming up on

1 Christmas laying off people.

2 This will address what Frank was talking about.
3 The signal sales 34 percent down for the live
4 racing, well, as a simulcast coordinator, and Dave's
5 one, when you're a track operator, we don't have a
6 lot of control over costs. I can control labor. I
7 can control the rug, linen service. I can control
8 the paper products we buy, and I can control the
9 decoders, which is the signals that we bring in, and
10 that's one of the most expensive ones.

11 So I sit there and say what can't I afford to
12 bring in? If I don't work for Colonial, I'm not
13 bringing in Colonial as one of the tracks because of
14 the product. So that's what people in New York and
15 California and Kentucky are looking at.

16 Simulcast coordinators are being, you know, you
17 need to save money, save money, save money. You can
18 only lay off so many people. You can only not have
19 so much toilet paper in there. You can only make
20 those cutbacks. The only place to cut it back is
21 signals, and if I'm working in New York, Colonial
22 Downs isn't the track I'm gonna take.

23 CHAIRMAN SIEGEL: Well, part of this effort is
24 to improve things, so they will.

25 MS. BOUZEK: I hope so.

1 CHAIRMAN SIEGEL: And all we can do is
2 try new things and see what comes of it.

3 MR. PETTY: Minus the crystal ball, which I
4 think a lot this is, you know, we're trying to
5 figure out where it's going and how it's gonna get
6 there.

7 Is there any merit in inviting Mr. Jacobs to
8 come visit us and have a conversation, and be it
9 with two commissioners and some stakeholders, and it
10 be a private meeting or it be a public meeting, and
11 say we recognize you have this underperforming
12 asset. What are you thinking? Are you thinking
13 five years? Are you thinking two years? Are you
14 thinking ten years? And he may not tell you, and
15 Ian may not know, or he may know and he doesn't tell
16 us, but I mean he may not know. Jim may not know.
17 The only guy who may know is Jeff Jacobs. So we do
18 all this with really no direct input from him.

19 MR. WEINBERG: Glenn, suppose he told you I
20 think it should be three weeks of racing and 12
21 days. Would that change your mind? Would that
22 change this discussion?

23 MR. PETTY: I don't think that's a question I
24 was -- it would certainly be part of the equation.
25 I would be interested in how he views what we all

1 see as his underperforming asset. That's kind of my
2 question.

3 We all look at it in slightly different views,
4 but we all know it's not doing what we want it to
5 do. It's not as successful as we want it to be.
6 I'm curious as to what he, you know...

7 MR. STUART: Well, it's tough for me to speak
8 for Jeff. I'll tell you, you know, looking at it,
9 and it's hard to look at it objectively from my
10 standpoint, but you know, the advantage to owning
11 the track is that some day there may be a slot
12 machine. If there's a slot machine, you've got
13 something. If you're willing to take a long enough
14 point of view and stick it out long enough, maybe
15 you'll get a slot machine. On the other hand, I
16 don't know how much money Mr. Jacobs has. I think
17 he has a fair amount.

18 So if this becomes too much of an aggravation,
19 it's a lot easier just to lock the door and pay the
20 taxes to the county and pay the insurance bill and
21 wait for the day that a slot machine comes. So who
22 knows. That's kind of the heart of the matter.

23 I don't think anybody at this stage of the game
24 thinks they're gonna make a whole bunch of money in
25 the horse racing business in Virginia.

1 MS. DAWSON: Mr. Chairman, I want to follow up
2 with what Mr. Petty was talking about earlier. One
3 of the responsibilities we have as a commission is
4 the good, the benefits to breeding industry in
5 Virginia, and I'd just like to hear your view on --
6 I know you wrote a letter to Mr. Siegel on Monday,
7 and in it, you state that the number of racing days
8 has nothing do with the condition of the number of
9 foals being bred in Virginia, which has continued to
10 decline. Can you tell us what you see as a way to
11 help that situation?

12 MR. PETTY: Well, to be clear, the minimal
13 number of racing days don't have an impact. The
14 racing days have an impact, but if you're down here
15 at 25, 30, 40, that doesn't change what people do
16 when they make five-year decisions. That's what
17 producing a race horse is; it's a five-year
18 decision.

19 So I'm gonna breed a horse today. I would try
20 to extrapolate what's gonna be happening in racing
21 in Virginia in 2019, 2018.

22 So I think that where we've been in the last
23 ten years with the back and forth between the 42 and
24 the 24 to the 30, that hasn't impacted it. What
25 impacts it is total dollars. We have one million.

1 West Virginia and Maryland have four million and
2 growing. Pennsylvania has about 16 million. New
3 York's about to go under the slot money and they're
4 gonna have -- so you can't abdicate with a straight
5 face to a business man. The breeding business has
6 become a business. It's no longer a sporting
7 endeavor like it was during our heyday, right up
8 into the 80s, probably.

9 It is now a business and you can't look at a
10 business man straight in the face and say, you come
11 to Virginia and you win this award, I'm gonna pay
12 you \$10,000, but West Virginia is gonna pay you
13 \$40,000, and Maryland is gonna pay you 50,000, and
14 Pennsylvania's gonna pay you 100,000, but you should
15 do it here. It doesn't convince anyone.

16 We have wonderful land, we have great horsemen.
17 We have all the intangibles that we all know are the
18 reasons we've had the tremendous success we've had.

19 If you took any controlled group of breeders
20 and brought them to Virginia and gave them the land
21 and gave them a bunch of mares and gave them
22 stallions, they would produce good horses. It's
23 just inherent to what we are.

24 But if you don't love it here and don't want to
25 live here, there's no economic benefit to doing

1 business here versus doing it other places.

2 What we see in Virginia, and we need to do
3 another internal survey the check this out. There's
4 still people that own mares. They just foal them
5 elsewhere, whether it's Kentucky or it's Maryland or
6 it's West Virginia, because the dollar they were
7 gonna get here was \$4 there.

8 So the only way you move that ball is to have
9 what is probably an unrealistic in the regional
10 national market, is to have 100 days of live racing
11 or more, which would give people 100 days to earn
12 their 100 percent bonus. But if you only have a
13 \$1 million fund, that 100 percent bonus isn't worth
14 much. It's a catch 22.

15 What you need to change the trend is as big a
16 race meet as you can have in the regional national
17 market, which we know is contracting, whatever that
18 number is, and you need a breeders' fund that's
19 three or four times as big as it is.

20 That means you need more wagering, and more
21 wagering means you need more outlets, or you need
22 instant racing, or you need slot machines to pick
23 however you want to get your -- but in the perfect
24 world, this Racing Commission has control of the
25 wagering product and the number of outlets there are

1 and can place them wherever they want. I think that
2 alone would double. Any kind of positive movement
3 like that might inspire people to stay home, but not
4 until you get to four million and up, will you
5 inspire people to come in from the outside to do
6 business more.

7 What we'd like to do right now is stop the
8 bleeding, but I don't see how the current \$1
9 million-plus fund in any of the models of racing
10 days would help us do that. The folks that are
11 still in it are dedicated to it. They're doing it
12 because they love it.

13 Now, we are in the process of starting a little
14 bit of a marketing campaign, trying to figure out
15 how to spend it. The word is, "spend," in that when
16 Ned Evans left and his horses go out of the system,
17 the population of Virginia-bred horses will be
18 reduced to say from 270 to 200. He produced 50 to
19 70 a year.

20 While this is bad in terms of looking at the
21 foal crop, and say it continues to shrink, what it
22 does, is if you're still in, it's more money for me.
23 The horses that are still left have more earning
24 power because our back end awards are all on a pro
25 rata basis.

1 If your horse wins ten percent of what all the
2 horses win, you get ten percent of the money. Well,
3 when you take all of Ned Evans' horses out of the
4 win, four million a year, what your horse does is
5 suddenly more valuable. So your \$5,000 breeders
6 award could become a \$10,000 breeders award. For
7 the folks that stay in it, there's more money
8 because there's fewer horses.

9 But there's nothing out there that says to the
10 people in other states, "You need to come do
11 business here." The 15-day model doesn't fix that.
12 The 40-day model doesn't fix that. The 40-day model
13 gives you more numerical opportunities to earn the
14 money, but you're still only competing for a million
15 bucks.

16 So until we get that \$1 million up, I think
17 we're having the same conversation with the breeders
18 fund people that we have with the purses. How do we
19 carve out this pot? What's the best way to buy this
20 money so it impacts the most people, the most
21 positive, the most ways?

22 Everybody's trying to figure out how to
23 reinvent the wheel and it's still round with a hole
24 in the middle.

25 We fight it every year. We have a two-hour

1 meeting, everybody comes, we all say the same things
2 to one another, and we reach the same conclusion.

3 It just is what it is, and I don't have any
4 better answer, other than you can sprinkle pixie
5 dust on the House of Delegates and get them to say,
6 "This Racing Commission can distribute the product
7 however it sees fit." Until that happens or until
8 Mr. Jacobs gets his slot machines in five, ten, 20,
9 25 years, whatever that number is, we're kind of
10 stuck, you know, stirring the pot of soup that we
11 have.

12 MS. DAWSON: Deal with what we have.

13 MR. PETTY: I wish somebody had a better answer
14 and someone would please come tell me. But I've
15 been studying it for 30 years and been here since
16 the day the racetrack opened, and we've had the same
17 conversation and we fought same battle, and it is
18 ultimately about more money in the purse account and
19 the Breeders' Fund, not necessarily how you divvy it
20 up.

21 CHAIRMAN SIEGEL: It has been a long time since
22 we've had a significant lobby at the General
23 Assembly. Is there an appetite for that, and do you
24 think the outcome would be any different if there
25 was enough money put into an effort to lobby the

1 legislature? I'm asking anyone that question.

2 MR. PETTY: I don't know that you can
3 significantly overcome what has been the primary
4 hurdle, which has been the Speaker of the House. I
5 just don't know. I'm not an expert on that. We
6 certainly have made efforts. We have had
7 conversations with him again and again. We have had
8 members of our association conduct fund raisers for
9 them, and he takes money and says, "Thank you, but
10 I'm not gonna vote for your issue."

11 CHAIRMAN SIEGEL: You're a one-man band.

12 MR. PETTY: It's tough. I don't know how you
13 overcome that. I think that's -- you know. And I
14 don't know that the next guy that comes up is gonna
15 be any better. I think maybe a little bit, but I
16 don't know that you can end-run around the Speaker
17 of the House if he is determined that what we're
18 doing is gambling and the expansion of gambling is
19 bad. That's my take. These guys may have a
20 different view

21 CHAIRMAN SIEGEL: It would probably be a long
22 time before you get slot machines. Given this
23 organization and the ability to deal differently
24 with purses and putting more money in this,
25 certainly part of the solution.

1 MR. PETTY: I have had a long-term frustration
2 in going to those people and using the lottery
3 comparison. Create a lottery, create a lottery, let
4 the lottery distribute the product. There's
5 thousands and thousands and thousands of lottery
6 machines at outlets and it's a tremendous success.

7 You say to us you can't do that, even though we
8 impact agriculture and open space and other good
9 stuff, you can't do that. We're gonna make it
10 harder for you, not easier.

11 And everyone does what you're doing, Mr.
12 Chairman. They go, "Um-hmm. Yep. You're right,
13 but we're not doing it." I do not know how you
14 overcome that. I've had the conversation hundreds
15 of times, and everybody understands the common sense
16 of that particular argument. They're unwilling to
17 take the political risk necessary to change it.

18 MR. WEINBERG: I would just echo what Glenn is
19 saying. As long as the dialogue is framed in the
20 context, well, this is the expansion of gambling, we
21 are not gonna overcome, no matter how much money I
22 think you spend lobbying, overcoming that argument.

23 CHAIRMAN SIEGEL: So you don't frame it that
24 way though.

25 MR. WEINBERG: Pardon me?

1 CHAIRMAN SIEGEL: So you don't frame it that
2 way.

3 MR. WEINBERG: Well, and so that brings me to
4 my second point. Until there is a crisis, such as
5 the transportation crisis, where pari-mutuel
6 wagering is viewed as a vehicle for solving another
7 problem, in addition to solving our problem, that's
8 the best opportunity, I believe.

9 And so we had a significant opportunity when
10 transportation was perceived to be a crisis, and I
11 think that's the closest we've ever come, barring
12 the impediment that Glenn --

13 MR. PETTY: And that never got out of the
14 committee on the House side.

15 MR. WEINBERG: Well, I think you remember it
16 came to the floor, but he caucused all the
17 Republicans and said if you want to have a future in
18 this Commonwealth, you won't vote for it.

19 MR. PETTY: It's exasperating.

20 CHAIRMAN SIEGEL: Absolutely.

21 MR. WEINBERG: So I think there are
22 opportunities, but it's not opportunities of our
23 making, necessarily.

24 CHAIRMAN SIEGEL: Right. Well...

25 MR. PETTY: And it's frustrating because you

1 can say, look how hard these people work. Look how
2 much they contribute. You can go to a governor who
3 is pro-business and pro, you know, and you can give
4 -- you can frame it in all the good, positive ways,
5 and it always comes back to that key issue.

6 So you get some support because you can, you
7 know, look at this farm. Look, they employ this
8 many people. They pay this much in taxes and they
9 work and they do all this great stuff, and it's all
10 funded by gambling dollars is the way they see it,
11 and then that's the problem. You just hit the wall
12 there.

13 CHAIRMAN SIEGEL: Well...

14 MR. PETRAMALO: One thing we have never had or
15 I'm not even sure explored, is the support of a
16 governor, regardless of who the governor was,
17 whether it's Tim Kaine or the current governor,
18 makes no difference whether Republican or Democrat.

19 We never had any support from the governor to
20 push what we wanted. We have always gone directly
21 to the legislature, always been very successful on
22 the Senate side and less successful, depending on
23 the issue, on the House side, and for the most part,
24 the governors have just kind of stayed away from
25 this. I don't know whether they regard this as --

1 CHAIRMAN SIEGEL: Political risk there, too.

2 MR. PETRAMALO: -- toxic or what.

3 CHAIRMAN SIEGEL: Well, I think you're gonna
4 need a Republican governor, if you're gonna deal
5 with the Speaker.

6 MR. PETRAMALO: Oh, that would be helpful.

7 MR. PETTY: I've advocated an audience with the
8 governor and haven't been able to get one. You need
9 20 or 30 minutes with the guy to kind of explain,
10 because it's a little bit complicated.

11 Mark Warner has been the only governor I've had
12 a conversation with that was meaningful, and I think
13 he was ambivalent to us. He didn't get in our way.
14 He didn't lead the charge, but he just was like, "I
15 get it. I understand. Have at it and good luck."

16 But usually, you can't even get in. They'll
17 channel you off to the Secretary of Commerce and
18 Trade, who oversees you guys, and they will shake
19 their head yes at all the right times and all the
20 right things, and they will go back to doing what
21 they were doing. It's frustrating.

22 But you're right. A Republican governor that
23 the can maybe broker a deal with the Speaker and
24 say, "Mr. Speaker, can you hold your nose and help
25 these people out? This industry is dying if you

1 don't help it."

2 You could write a book and say The History of
3 Virginia Racing and Breeding, A Modern History of
4 Virginia Racing and Breeding, and you can subtitle
5 it How the House of Delegates Killed horse racing
6 and Breeding In Virginia.

7 When all the smoke clears 10 or 20 years from
8 now, we'll be able to look back and see because of
9 this gridlock that we hit there in our inability to
10 grow this industry, we just stair-stepped our way
11 right down to the floor.

12 The unfortunate part is they don't care. We
13 don't swing a big enough stick, control enough
14 votes, have enough general public or media pressure
15 to make the delegate from Herndon or the delegate
16 from Halifax or the delegate from Westmoreland care
17 about what we do. Even with little windows like the
18 Secretariat movie where you can wave the flag, it's
19 not enough.

20 People who advocate for agriculture will tell
21 you the same thing is happening in Virginia. The
22 agriculture is less understood than it has ever been
23 and is having a harder time getting what it needs.

24 We're a small subgroup of agriculture, so our
25 battle is even tougher. I'm full of good news, if

1 you want to ask me anything else.

2 CHAIRMAN SIEGEL: Well, this is helpful
3 dialogue --

4 MS. DAWSON: Yeah, very good.

5 CHAIRMAN SIEGEL: -- I think to everyone in the
6 room, not the least of which would be this
7 Commission, and I think there's not a lot of
8 surprises, but I think there's a lot more clarity as
9 to what the issues are now, having had this
10 dialogue.

11 Any other comments from anyone regarding the
12 proposed race dates? If not, the Chair will
13 entertain a motion for approval.

14 MS. DAWSON: I so move.

15 MR. S. REYNOLDS: Second.

16 CHAIRMAN SIEGEL: Motion is seconded. Any
17 discussion further? If not, all in favor say aye.

18 NOTE: The Commission votes aye.

19 CHAIRMAN SIEGEL: I think that's all of us. We
20 approve.

21 MR. WEINBERG: Thank you very much.

22 CHAIRMAN SIEGEL: And good luck.

23 MEMBER OF THE PUBLIC: Can I ask a question?

24 CHAIRMAN SIEGEL: Sure.

25 MEMBER OF THE PUBLIC: Is there any sort of

1 safety net or back-up plan for the horsemen if they
2 close their doors? Is there anything for the money?
3 I mean most of the horsemen have three to five years
4 as breeders invested in this. What will happen to
5 the fund and Breeders' Fund? Is there any sort of
6 safety net for the horsemen?

7 CHAIRMAN SIEGEL: Frank?

8 MR. PETRAMALO: I'm just trying to think within
9 the context of the Racing Act what would occur if
10 there were no live racing. I don't think the
11 racetrack would be able to simulcast, that's clear.
12 What the impact would be on ADW and the statutory
13 shares, I don't know. I've never thought about
14 that. The answer is, I don't know.

15 MR. PETTY: I don't know if you could say that
16 you didn't run in 2014 and there was, you know, half
17 a million bucks in the Breeders' Fund.

18 I don't know if you could tailor the rules to
19 pay it out based on -- well, I guess you could
20 re-allocate it to just the breeders awards and
21 stallion award proportion, so you could spend what
22 you had until you ran out, based on not the 100
23 percent of awards here, because they wouldn't be
24 here, but on the other part of the fund.

25 CHAIRMAN SIEGEL: To support those breeders.

1 MR. PETTY: Yeah. What happens, I think your
2 purse dollar, don't you have to spend that here at a
3 licensed race meet?

4 MR. PETRAMALO: Well, but the ADW money is
5 different.

6 MR. PETTY: That's a different cat. Yeah.

7 CHAIRMAN SIEGEL: Good question to ponder, and
8 I think Frank will study it.

9 Okay. We have to now deal with Standardbred
10 dates, and I'm not sure whether the Standardbreds
11 are represented here or not, but certainly Colonial
12 is, and Jim, are you gonna present?

13 MR. WEINBERG: I'm happy to present. The
14 presentation is consistent with our letter
15 requesting 24 days of Standardbred racing for 2013,
16 which would commence on Wednesday, September 18th,
17 and on Sunday, October 27th, 2013.

18 This request is consistent with the same number
19 of days we ran in 2012, and is consistent with the
20 requirements of Section 7A of the Standardbred
21 horsemen's agreement.

22 So we are asking for the Commission's approval
23 of a deal that was struck with the horsemen at the
24 time we entered into the agreement and we're
25 prepared to continue.

1 The normal schedule will be much like it was in
2 2012; Wednesday, Thursday, Saturday, Sunday, with
3 racing four days per week and a post time of one
4 p.m.

5 CHAIRMAN SIEGEL: September 28 to October 27;
6 is that right?

7 MR. WEINBERG: September 18th.

8 CHAIRMAN SIEGEL: I'm sorry, 18th. Okay.
9 Anyone have any questions or comments with regard to
10 the Standardbred dates?

11 NOTE: There was no response.

12 CHAIRMAN SIEGEL: If not, do we want to
13 entertain a motion to approve them?

14 MR. S. REYNOLDS: So moved.

15 MR. TROUT: Seconded.

16 CHAIRMAN SIEGEL: All in favor, say aye.

17 NOTE: The Commission votes aye.

18 MR. WEINBERG: Thank you.

19 CHAIRMAN SIEGEL: Okay. Are there any members
20 of the general public that would like to speak?
21 Public participation? Good opportunity to do that,
22 if you wish.

23 NOTE: There was no reponse.

24 CHAIRMAN SIEGEL: Mr. Secretary, are there any
25 other issues or questions, other than to set the

1 date?

2 MR. HETTEL: The only other pending issue is
3 the necessity for a December meeting.

4 CHAIRMAN SIEGEL: Right. We'll get to that
5 next, but I don't know if you had anything. Dave,
6 do you have anything?

7 MR. LERMOND: Depending on whether you want to
8 set a December meeting or not.

9 CHAIRMAN SIEGEL: It has been suggested that
10 since we're meeting today, that we not schedule a
11 December meeting, but schedule a January meeting.

12 There are a couple of issues pending; the
13 renewal of the horseman's contract and ADW
14 licensees. It has also been suggested that we
15 extend those contracts to January 30th, and then
16 deal with those two at the January meeting. Is
17 there any reason not to do that, that anyone is
18 aware of?

19 NOTE: There was no response.

20 CHAIRMAN SIEGEL: Okay. So we don't need to
21 vote on that. So if that's okay with everyone,
22 we'll just do that. I'm gonna suggest some dates
23 for January that are somewhat arbitrary, but I
24 certainly think we should meet mid-month since we
25 will not have met for sixty days.

1 Where are you? Playing polo somewhere?

2 MR. PETRAMALO: Beg your pardon?

3 CHAIRMAN SIEGEL: Are you playing polo in
4 Monaco?

5 MR. HETTEL: West Palm.

6 MR. PETRAMALO: You're not gonna believe this,
7 but this is true.

8 CHAIRMAN SIEGEL: Of course. Came from your
9 mouth.

10 MR. PETRAMALO: We have a horse in England
11 that's gonna be racing there at the end of January.

12 CHAIRMAN SIEGEL: That's the end of January.

13 MR. PETRAMALO: Yeah.

14 CHAIRMAN SIEGEL: So you're not gonna be gone
15 the whole month, are you?

16 MR. PETRAMALO: No, no. The end of January.

17 CHAIRMAN SIEGEL: Let me depose -- propose a
18 date and see how that one floats with everyone. We
19 generally have been meeting on Wednesdays, so if we
20 continue that, then Wednesday, January 16th.

21 Mr. Reynolds, Jr., here and I and the secretary
22 feel that's a good date, but we want everyone to buy
23 into it, if possible. We have alternates, but
24 that's the best date. Wednesday, January 16th. Did
25 he go to the men's room or to get his calendar?

1 MR. WEINBERG: He went to get his calendar.

2 MS. DAWSON: It works for me.

3 CHAIRMAN SIEGEL: Okay. Stran, does it work
4 for you?

5 MR. TROUT: That does work for me. I've
6 checked my calendar.

7 CHAIRMAN SIEGEL: It seems like the Commission
8 is good. You have a questioned look on your face,
9 Frank.

10 MR. PETRAMALO: Let me consult with counsel
11 here.

12 CHAIRMAN SIEGEL: We have a side bar going on
13 between counsel, between lawyers.

14 MS. DAWSON: That could take a long time.

15 CHAIRMAN SIEGEL: And if there are issues on
16 the horsemen's contract, you guys need to get
17 together on it before January 16th.

18 MR. PETRAMALO: Well, what we've just decided
19 to do was to seek your approval for an amendment to
20 our contract that will extend its expiration date
21 from December 31st to January 31st.

22 CHAIRMAN SIEGEL: Yeah. I think that's what I
23 was suggesting in order to meet in January instead
24 of --

25 MR. PETRAMALO: Yeah. That's fine with us.

1 CHAIRMAN SIEGEL: Right. So if the
2 January 16th date works, let's entertain a motion,
3 since it does require contract extensions, to extend
4 the horsemen's contract and the ADW licensees'
5 contract to January 31st, and set a meeting date.
6 Well, there doesn't have to be a motion, but let's
7 just do that. All in favor?

8 NOTE: The Commission votes aye.

9 CHAIRMAN SIEGEL: I guess that's a motion as
10 well. The next meeting date will be set for
11 Wednesday, January the 16th.

12 MR. TROUT: Will that be at ten a.m.?

13 CHAIRMAN SIEGEL: Yes, ten a.m. All right. Is
14 there any other business to come before this
15 Commission?

16 MR. STUART: I'd like to say one thing. I
17 mentioned to Dave the other day that Twinpires is
18 running this Luckety [ph] game and I was asking if
19 he could check to make sure the handle was in the
20 Twinpires handle.

21 MR. LERMOND: I checked with Brad Blackwell
22 from Twinpires, and he did assure me that Luckety
23 is kind of a simplified version. When you go on
24 there, it's gonna say -- it goes to the next race.

25 In other words, let's say Philly Park's five

1 minutes to post. It may pick the number for you,
2 but you're actually betting on that race in
3 Philadelphia Park, so it's gonna show up on the
4 normal handle report just like an account holder in
5 Virginia betting on Philadelphia Park, whether it
6 was through the Luckety or just a regular wager. It
7 still will show up, it still will get the state tax,
8 the Breeders' Fund, the source market fees will
9 still go to the parties.

10 MR. PETRAMALO: What's the business plan? It's
11 kind of like spinning a wheel?

12 MR. WEINBERG: Looks like a video game. Have
13 you seen those?

14 MR. PETRAMALO: No.

15 MR. LERMOND: It does, but you're actually --
16 pari-mutuel.

17 MR. PETRAMALO: I have seen that. I understand
18 that.

19 MR. LERMOND: It's approved by the Oregon
20 Racing Commission and the California Horse Racing
21 Board as being pari-mutuel.

22 MR. PETRAMALO: Are they generating any handle
23 on that?

24 MR. LERMOND: It's kind of a soft opening.
25 They really haven't publicized it yet.

1 MS. BOUZEK: So Dave, does that handle show up
2 in Twinspires, because --

3 MR. LERMOND: It will, yes.

4 MS. BOUZEK: Well, because like we wanted to
5 see what it was like and it doesn't give you a
6 Twinspires account number. How does it...

7 MR. LERMOND: It's supposed to be the same
8 system --

9 MS. BOUZEK: I understand. I read that, too,
10 but I'm just saying we -- it gives you an account
11 number. Owen and I did it. It gives you an account
12 number, but it's not an account number that'll get
13 you in to Twinspires.

14 CHAIRMAN SIEGEL: Sounds like we need to do a
15 little more investigation as to whether it's being
16 properly applied.

17 MS. BOUZEK: It's hard to put money into Horse
18 Play if you don't have a Horse Play account, so I
19 don't know how the money is going into Twinspires if
20 you don't have a Twinspires account. That's my
21 question.

22 MR. STUART: I have no reason to believe that
23 they are telling Dave anything that isn't true.

24 MS. BOUZEK: No.

25 CHAIRMAN SIEGEL: But the question is a

1 legitimate question. How do you do it?

2 MR. PETRAMALO: I thought this was just kind of
3 a free experimental thing that they were doing.

4 MS. BOUZEK: No.

5 MR. PETRAMALO: They're taking money on it?

6 MS. BOUZEK: You put money in and it's just
7 like account wagering. You put \$25 in. You have
8 25. This little thing spins the wheel, picks
9 numbers for you. If you win, it pays track prices.
10 But my question is, we tried to use our account
11 number to go into Twinpires, and it says it's not
12 an accurate number, so I don't know how you can get
13 --

14 MR. WEINBERG: They could be any two accounts.
15 They may be curious how Jeanna bets legitimate
16 Twinpires versus Luckety.

17 MS. BOUZEK: As long as they're merging them.

18 MR. LERMOND: Twinpires has to keep it
19 separate on their end, because they may pay a track
20 more for wagers that are bet through the Luckety
21 than through the regular Twinpires.

22 MS. BOUZEK: I guess maybe I'm speaking out of
23 turn for Ian's concern, but make sure that that
24 money is accounted for in the Twinpires money. If
25 they're gonna keep it separate, make sure they put

1 it back at the end of the month.

2 MR. STUART: They are a licensee, just like we
3 are, so you have all the same opportunities to gain
4 their operation. So I would think that they could
5 verify it to you in writing, if that's where that's
6 going.

7 CHAIRMAN SIEGEL: And we should do that with
8 all of them.

9 MR. LERMOND: Sure.

10 CHAIRMAN SIEGEL: With that in mind, since we
11 are talking about that, I think Mr. Reynolds has a
12 question or a comment.

13 MR. S. REYNOLDS: I meant to ask this earlier,
14 and I apologize, but I think it's pretty important.

15 We talked in previous meetings a little bit
16 about putting a signal out on say a TVG or a horse
17 racing TV network, and obviously, I think you said
18 it's too expensive to do. Could you elaborate a
19 little bit and tell us, you know, what it costs to
20 do that, versus --

21 CHAIRMAN SIEGEL: Is it cost-prohibitive or
22 will there be some advantage? Will we get more
23 attention and increase the handle enough to offset
24 that?

25 MR. STUART: Well, let's talk about TVG for a

1 minute. For argument's sake, TVG handles about \$20
2 million in Virginia in a year. Right now, the
3 horsemen get \$1 million. They get five percent and
4 we get \$1 million, say it's five percent.

5 What they would like is for us to give them a
6 discount in order to put our product on their
7 network. They want a discount off the money they
8 are paying us. I don't know what that number is,
9 but I would be willing to bet you it's probably
10 two-and-a-half points.

11 CHAIRMAN SIEGEL: Does everybody get that
12 discount?

13 MR. STUART: No.

14 CHAIRMAN SIEGEL: Just us specifically they
15 want it from?

16 MR. WEINBERG: No. Just by way of background,
17 before the statute changed to provide for a fixed
18 fee, there were contracts in place with each of the
19 providers, and TVG was the first mover.

20 I think they had a pretty favorable contract
21 and was willing to commit to long-term and commit to
22 putting us on their channel and do all these
23 favorable things. They let that contract expire.
24 They weren't interested in renegotiating it and then
25 the law changed to ten percent.

1 We went back and said, "Do you want to
2 negotiate?" They said, "No. We are sort of happy
3 where we are." And then that's when the story picks
4 up.

5 MR. STUART: Okay. Well, right now, they have
6 to pay a ten percent source market fee to the state.
7 My guess, in order to put our product on their
8 network, they'd probably like that source market fee
9 to be seven-and-a-half percent, which would mean
10 that instead of the horsemen getting \$1 million from
11 TVG, they'd get \$750,000 from TVG and we'd get
12 \$750,000 from TVG. TVG would pick up half a million
13 bucks.

14 But what they'll tell you is, okay, we're gonna
15 put your signal out there and you're gonna make, I
16 don't know. They'd probably give you three or four
17 percent.

18 Well, you divide a half a million dollars by
19 three or four percent, you're gonna need, I don't
20 know what the number is, \$100,000 million or
21 something. I get lost in the zeros. If somebody
22 has a calculator, they can do it. You're gonna need
23 to practically double or triple our signal in order
24 to make back that money they want. It's just not
25 economical.

1 MR. LERMOND: Are you saying the other ADW
2 companies are paying ten percent, or are they paying
3 seven-and-a-half?

4 MR. STUART: No. Each one has different deals.
5 If you think about it, think about what each one
6 brings to the table.

7 Churchill Downs, it's all about content.
8 Churchill Downs controls the Churchill Downs
9 content, the Calder content, the Arlington Park
10 content, and the Fair Grounds content, not to
11 mention, and I don't know the exact other ones; I
12 forget it, but I could find it for you. There's two
13 or three other tracks they negotiate for.

14 So basically, the dynamic here is they hold
15 this content that they sell to us at a price, and
16 the other side of the dynamic is we have a source
17 market fee. If we say, okay, Mr. Churchill Downs,
18 we want ten percent as our source market fee,
19 they'll come back to us and tell us one of two
20 things. Either, A, we're not gonna sell you our
21 content; or B, the price of our content is gonna go
22 up.

23 So between this dynamic, we found a happy
24 medium. They get a little bit off the ten percent,
25 we get, you know, access to their content, and

1 probably they don't squeeze us quite as hard as they
2 possibly could.

3 If you look at Xpressbet, they're sort of in a
4 similar situation, in that they control -- Magna
5 controls the content for Golf Stream, Santa Anita,
6 some smaller tracks.

7 MR. PETRAMALO: Maryland tracks in Portland
8 Meadows.

9 MR. STUART: Maryland tracks. You've got the
10 same dynamic going on here. The difference here is
11 years ago, we signed a long-term contract with
12 Xpressbet that everybody was happy with until the
13 change of the Breeders' Fund, but I think that part
14 can be resolved.

15 Xpressbet and Churchill Downs jointly own HRTV,
16 which is the other racing network. We've had
17 numerous discussions with both Xpressbet and
18 Churchill Downs about gaining more access to HRTV.

19 They basically come back and tell you, well,
20 sure, we'll help you out. You can be on after we
21 have Churchill Downs, Golf Stream, Calder,
22 Arlington. We got a list of, you know, 15 tracks,
23 but you're right there, right after we take care of
24 all those 15. We'll be happy to help you out.

25 CHAIRMAN SIEGEL: So you don't think a

1 significant amount of volume opportunity for us by
2 being at TGV, you know, with some kind of compromise
3 with them, and you may not make money on that, but
4 if you get -- you attract more people and get us
5 better known and whatever the other benefits are,
6 there's no offset?

7 MR. STUART: Well, if you can make the thing --
8 I'm not saying that being on TVG has no value. I
9 don't think it has the value they want for it.

10 MR. WEINBERG: And said another way, if we
11 could get the price to be right, so much as we have
12 done with Churchill Downs and Xpressbet, where we
13 feel that the discount and the trade-off for content
14 or exposure is a fair exchange, we'd do the same
15 with TVG.

16 I think what we're trying to express is TVG has
17 never come with a realistic number where we thought
18 what they're asking to give up in certain revenue
19 was equivalent to both the hard and the soft
20 benefits that would be attributable to the --

21 CHAIRMAN SIEGEL: Is there any value in
22 re-instigating some discussions with them, or do you
23 do that from time to time anyway?

24 MR. STUART: Actually, a third party approached
25 me, I don't know, a month or two ago, and I went

1 through dynamics with them. They went back to TVG
2 and I never heard from TVG. I'm not opposed to it.

3 CHAIRMAN SIEGEL: It's something to think
4 about, because they are out there with lots of folks
5 watching.

6 MR. LERMOND: If you could get to an
7 arrangement where the ten percent source market fee
8 stays as it is and you could just take a lesser host
9 fee, even if it's one-and-a-half percent,
10 one-and-a-half percent of something is better than
11 five percent of nothing.

12 MR. STUART: Well, we offered them the signal
13 at probably less than that.

14 MR. PETRAMALO: I think we offered to give it
15 to them for nothing.

16 MR. STUART: Pretty close.

17 MR. PETRAMALO: Yeah. They wouldn't even take
18 it for free.

19 CHAIRMAN SIEGEL: Well, we're not really
20 important to them.

21 MR. PETRAMALO: That's true.

22 CHAIRMAN SIEGEL: That goes back to everything
23 we've been talking about for last hour.

24 MR. PETRAMALO: You know, depends on what
25 you've got to give them. For example, they show

1 Prairie Meadows in Iowa. They do that because
2 they've got a nice little deal with Prairie Meadows
3 where they, in effect, run an ADW statewide for
4 Prairie Meadows racetrack and the Iowa horsemen, so
5 they're more than happy and they make money off
6 that. They're more than happy to show the Prairie
7 Meadows content.

8 For us, they're not at all concerned about
9 whether they show our signal or not, because it
10 really means nothing to them.

11 Quite the contrary, you could argue that it
12 costs them money. To the extent that they show us
13 and generate handle on us, it's costing them more in
14 terms of the source market fees they have to pay.
15 Right?

16 MR. WEINBERG: Only if a Virginian is wagering
17 on it.

18 MR. PETRAMALO: That's right. That's right.

19 CHAIRMAN SIEGEL: So it's a question worth
20 certainly looking at on a periodic basis.
21 Hopefully, sometime down the road we'd be able to do
22 it.

23 Any other issues or questions to come before
24 this Commission?

25 NOTE: There was no response.

1 CHAIRMAN SIEGEL: If not, we're adjourned to
2 January 16th. Happy holidays to everyone in advance
3 and be safe.

4
5 NOTE: The hearing is adjourned at
6 12:33 p.m.

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1 CERTIFICATE OF COURT REPORTER

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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 4th day of January, 2013.

SANDRA G. SPINNER

COURT REPORTER