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VIRGINIA RACING COMMISSION

June 12, 2018

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

Commencing at 10:00 a.m.

COMMISSION MEMBERS:

D.G. Van Clief, Jr., Chairman

J. Sargeant Reynolds, Jr.

Stuart Siegel

I. Clinton Miller

COMMISSION STAFF:

David S. Lermond, Jr., Executive Secretary

Kimberly C. Mackey, Office Administrator

Rhonda Davis, Pari-Mutuel Wagering and Licensing
Coordinator

ATTORNEY GENERAL'S OFFICE:

J. Duncan Pitchford, Esquire

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I N D E X

	Page
1	
2	
3	1. Call to Order 3
4	2. Election of Vice Chairman 3
5	3. Approval of the April 18 meeting minutes 4
6	4. Administrative Process Act Hearings
7	a. Nonprofit Industry Stakeholder Organization Applicant 5
8	i. Virginia Equine Alliance
9	b. Majority Horsemen's Group Applicant 13
10	i. Virginia Horsemen's Benevolent and Protective Association
11	ii. Virginia Harness Horse Association 16
12	5. New Business
13	a. Request for Additional Expenditure from the Virginia Equine Alliance 18
14	b. Report from the Virginia Equine Alliance
15	i. Shenandoah Downs 19
16	ii. OTB Update 20
17	6. Public Comment Period 34
18	7. Commissioners' Comments 34
19	8. Closed Session (if necessary) 36
20	9. Adjournment 39
21	
22	
23	
24	
25	

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

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

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

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

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

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

1 chairmanship.

2 COMMISSIONER MILLER: I second.

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

7 NOTE: The Commission votes aye.

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

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

15 COMMISSIONER SIEGEL: Motion to approve.

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

18 COMMISSIONER REYNOLDS: Second.

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

21 NOTE: The Commission votes aye.

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

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

1 horsemen's organizations.

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

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

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

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

24 CHAIRMAN VAN CLIEF: Please do.

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

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

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

13 A few highlights of programs and initiatives
14 launched by the industry since 2015 include a day of
15 flat racing in Great Meadow in Fauquier County in
16 2015. A four-day harness meet at Oak Ridge in
17 Nelson County, also in 2015. The VEA helped build a
18 new harness track out at the Shenandoah County
19 fairgrounds completed in 2016, and the VEA now with
20 the VHHA and the fair, we operate and promote the
21 annual ten-day Shenandoah Downs harness meet at the
22 fairgrounds.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 been corrected.

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

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

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

20 COMMISSIONER SIEGEL: I don't have any.

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

1 forward.

2 MR. HANNUM: Thank you.

3 CHAIRMAN VAN CLIEF: I also agree with
4 Commissioner Reynolds. I think that the structure
5 adopted by the VEA, their not-for-profit structure,
6 and the inclusive format which basically binds
7 together all elements of our horsemen's
8 organizations and the operational and at least up
9 until now the operational aspects of the industry
10 has worked extremely well.

11 I've said on lots of occasions that it's a
12 unique structure. I think that it presents a model
13 nationally of what can work under the most adverse
14 conditions. The VEA has done a tremendous job with
15 it's racetrack development, with OTB development and
16 with political development, so I'll also say well
17 done and I'm a staunch supporter of the VEA going
18 forward.

19 We've got a motion here that incorporates the
20 two-year review requirement. I'll read that and
21 I'll make this motion.

22 In accordance with Virginia code 59.1-369, I
23 move that we recognize the Virginia Equine Alliance
24 as the recognized nonprofit industry stakeholder
25 organization in the Commonwealth of Virginia.

1 As a condition of this recognition, the Virginia
2 Equine Alliance shall file with the executive
3 secretary on a biennial basis on or before July 1st
4 a current copy of its bylaws, its most recent
5 financial audit and a current listing of its
6 officers and directors.

7 So this is a little different than what we're
8 doing here today. We're not requiring a brand new
9 application in two years; simply a filing of the
10 documents that I just mentioned, which will go to
11 the executive secretary.

12 If there are no questions flowing out of that
13 process and no need for action, then we won't take
14 it -- we will simply move on.

15 So it's not a requirement for reapplication.
16 It's simply a requirement for a review at the end of
17 two years. I want to make there sure there are no
18 questions on that, including on the part of the VEA.
19 If you have any or any of the horsemen's groups,
20 please let us know, because we will be adopting the
21 same format as applies to the HBPA and VHHA.

22 MR. HANNUM: And that's July 1st? That's the --

23 CHAIRMAN VAN CLIEF: That's correct.

24 MR. HANNUM: Thank you.

25 CHAIRMAN VAN CLIEF: Any questions? If there

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

3 COMMISSIONER SIEGEL: Second.

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

6 NOTE: The Commission votes aye.

7 CHAIRMAN VAN CLIEF: It passes unanimously.

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

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

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

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

1 Laurel Raceway and occasionally at Pimlico.

2 we've funded purses to the tune of a half
3 million dollars a year at the steeplechase races at
4 Gold Cup, and most importantly and most recently,
5 we've funded the owners bonus program in the
6 Mid-Atlantic, whereby owners of Virginia-bred horses
7 that win in six states receive a 25 percent bonus.

8 we also have -- we are under contract with the
9 Gold Cup through 2019 to continue our support of
10 racing there.

11 Most recently, we joined with the VEA in
12 negotiating and signing a revenue sharing agreement
13 with the new owners of Colonial Downs. If you'd
14 like at some point, I can go through that and
15 explain the highlights.

16 we have currently about 500 members. The
17 breakdown is about 40 percent are Virginia
18 residents, 20 percent Maryland, and about ten
19 percent Pennsylvania, which is about the same as it
20 has been running over the past years.

21 of course we look forward to reinstating live
22 racing in Virginia at Colonial Downs next year.

23 I've submitted to the Commission our relevant
24 documents; namely, our contracts with the Gold Cup
25 and Revolutionary Racing, our corporate bylaws, our

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

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

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

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

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

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

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

3 Do I have a second?

4 COMMISSIONER REYNOLDS: Second.

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

8 NOTE: The Commission votes aye.

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

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

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

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

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

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

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

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

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

1 officers and directors. Do I have a second?

2 COMMISSIONER MILLER: Second.

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

6 NOTE: The Commission votes aye.

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

9 MS. WARNICK: Thank you.

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

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

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

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

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

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

15 COMMISSIONER MILLER: So moved.

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

18 COMMISSIONER REYNOLDS: Second.

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

22 NOTE: The Commission votes aye.

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

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

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

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

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

21 CHAIRMAN VAN CLIEF: Any questions? Thank you.

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

1 winner going into the Belmont.

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

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

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

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

1 particular at Ponies & Pints just down the road,
2 where they make a big effort to reach out to the 20
3 and 30-year-old age group. So that was a great
4 weekend.

5 Just by comparison, the handle is up five
6 percent compared to last year at the two Richmond
7 sites for the weekend, so we just looked at the
8 Richmond sites because Buckets and windmill weren't
9 up and running at that time last year.

10 But comparing Ponies & Pints and Breakers 2017
11 to 2018, handle was up five percent this year just
12 on the two Richmond sites, so that was a good sign.

13 I'll just take a look at the numbers for the
14 four different sites. On an average handle per day,
15 Breakers is at about 27,000; Ponies & Pints a little
16 over 21,000; Buckets, almost 35,000; and the
17 windmill, about 15,000 and that's per day handle.

18 One of the things that we track now that we're
19 coming into a second year is we're able to compare a
20 little bit better numbers on a monthly basis. I
21 think that's important. We're not fully comparing
22 apples and apples when we're looking at the 2018
23 with 2017, because we're still -- we've only had two
24 sites that have been up and running for any sort of
25 meaningful comparison.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

18 MR. HANNUM: Yes.

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

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

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

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

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

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

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

1 machines, as will other elements of the program.

2 So right now, the HBPA is supporting the
3 Certified program, so we want to get that
4 responsibility away from the HBPA and over to the
5 VEA and we've been relying on the historical horse
6 racing machines to do that.

7 Then a last note Debbie asked me to point out.
8 It looked like Virginia would have had over 100
9 horses bred this year, so I think there are some
10 positive signs for the breeding industry for the
11 state.

12 COMMISSIONER SIEGEL: Do you have the statistics
13 from last year to compare to that?

14 MR. HANNUM: In terms of the numbers of mares
15 bred?

16 COMMISSIONER SIEGEL: Yes.

17 MR. HANNUM: I don't right now, Commissioner, in
18 front of me. That's something we can provide in the
19 next meeting in greater detail. I'll make note of
20 that.

21 CHAIRMAN VAN CLIEF: That would be great. Also
22 a related question. I know several meetings ago, we
23 had some trainers who were able to attest to the
24 fact they had seen a market up-tick in their
25 business as a result of instituting the

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

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

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

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

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

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

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

4 CHAIRMAN VAN CLIEF: Great. Thank you.

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

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

16 MS. NIXON: Absolutely.

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

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

21 CHAIRMAN VAN CLIEF: Great. Thank you.

22 MR. HANNUM: Thank you.

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

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

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

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

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

21 MR. HANNUM: Dr. Allison.

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

1 Revolutionary Racing, and then they had their team
2 of three lawyers from Chicago, Sid Fraylic [ph],
3 Kimberly Copp [ph], and I forget the name of the
4 third fellow. The proceedings went for two days.
5 Very professional and resulted in the revenue
6 sharing agreement that you see in front of you.

7 Now, it's kind of tough slogging because the
8 Chicago lawyers did the final drafting. I think
9 they've had too many mergers and acquisitions in
10 their background. But in any event, if you get
11 through it all, it makes imminent sense. It all
12 fits together. I was skeptical because my view is
13 less is more. Their view is not so much.

14 But in any event, the revenue sharing really has
15 three aspects to it. If you look toward our sources
16 of revenue here in the Commonwealth, the first one,
17 the most prominent one over here, has been online
18 wagering, the ADW. That has not changed one bit.

19 Going forward, the VEA will continue to receive
20 their four percent of Virginia handle from all four
21 online wagering companies going. The horsemen, the
22 harness horsemen and the Thoroughbred, will continue
23 to receive their five percent. No change there.

24 With regard to the satellite wagering
25 facilities. First of all with regard to the

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

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

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

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

18 In addition, Revolutionary Racing will pay
19 50 percent of the undepreciated value of the assets
20 in those four OTBs. Remember when we put together
21 those OTBs, we put in construction, counters, TV
22 sets, switches, et cetera. The VEA will get
23 50 percent of the undepreciated value that's
24 remaining. So that's the OTB situation.

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

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

6 with regard to historical horse racing,
7 93.6 percent goes to the players, which leaves a
8 6.4 percent take out or win. But that gets further
9 reduced because under statute, the state and the
10 localities get one and a quarter percent. So you're
11 basically down to the operator of these machines
12 getting about four percent of the, quote, handle.

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

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

1 program, purses and things of that sort.

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

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

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

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

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

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

1 CHAIRMAN VAN CLIEF: Thank you.

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

6 COMMISSIONER MILLER: I don't have anything.

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

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

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

1 So we're looking forward to a wider circulation
2 of draft regulations in the near future and we look
3 forward to input when that is accomplished.

4 We're also looking forward to another update at
5 the latest at our July 10th meeting. So hopefully,
6 we'll be making progress between now and then.

7 We do need a closed session today. The
8 Commission has been named in a suit which has to do
9 with one of our earlier stewards' rulings, so can I
10 call on Mr. Pitchford to take us into the closed
11 session and help us with the proper resolution.

12 MR. PITCHFORD: Thank you, Mr. Chairman. I
13 would ask that someone make the following motion.

14 That in accordance with the provisions of
15 Section 2.2-3711(a)(8) of the Code of Virginia, I
16 move the Commission go into closed session for the
17 purposes of consultation with legal counsel and
18 briefing by staff members pertaining to actual or
19 probable litigation. Such consultation or briefing
20 in open meeting would adversely affect the
21 negotiating or litigating posture of the public
22 body. Commissioners will only ask counsel questions
23 and will not engage in deliberations or any other
24 activities.

25 COMMISSIONER MILLER: So moved.

1 COMMISSIONER SIEGEL: Second.

2 CHAIRMAN VAN CLIEF: All in favor.

3 NOTE: The Commission votes aye.

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

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

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

15 MR. HANNUM: Thank you.

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

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

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

25 Whereas the Virginia Racing Commission has

1 convened a closed meeting on this date pursuant to
2 an affirmative recorded vote in accordance with the
3 provisions of the Virginia Freedom of Information
4 Act, and whereas Section 2.2-3712 of the code of
5 Virginia requires a certification by this Commission
6 that such closed meeting was conducted in conformity
7 with Virginia law, now therefore be it resolved that
8 the Virginia Racing Commission certifies that to the
9 best of each members' knowledge, only public
10 business matters lawfully exempted from open meeting
11 requirements under the Virginia Freedom of
12 Information Act, and only such public business
13 matters as were identified in the motion convening
14 the closed meeting were heard, discussed or
15 considered by the Commission in the closed meeting.

16 COMMISSIONER MILLER: So moved.

17 CHAIRMAN VAN CLIEF: Second.

18 COMMISSIONER REYNOLDS: Second.

19 MR. PITCHFORD: Mr. Chairman, there will be a
20 need to do a roll call.

21 CHAIRMAN VAN CLIEF: Commissioner Reynolds.

22 COMMISSIONER REYNOLDS: Yes.

23 CHAIRMAN VAN CLIEF: Commissioner Siegel.

24 COMMISSIONER SIEGEL: Yes.

25 CHAIRMAN VAN CLIEF: Commissioner Miller.

1 COMMISSIONER MILLER: Yes.

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

5 COMMISSIONER REYNOLDS: So moved.

6 COMMISSIONER SIEGEL: Second.

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

10 MR. LERMOND: Courtroom B.

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

14

15 NOTE: The hearing is adjourned at 11:35
16 a.m.

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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 24th day of June, 2018.

Sandra G. Spinner

SANDRA G. SPINNER
COURT REPORTER