When a Blessing Becomes a Burden

MODERATOR/SPEAKER:
Jack Ketterer, Administrator, Iowa Racing and Gaming Commission

SPEAKER:
Jeffrey Smith, General Manager-Racing, Hoosier Park Racing & Casino

Mr. Steve Barham: Welcome to the panel, “When A Blessing Becomes a Burden.” There were a number of things our keynote speaker talked about hopefully can get tied into some of this also.

First of all, I guess I’d like to recognize our sponsors for the last refreshment break, Elite Turf Club and Racing & Gaming Services.

Also this year those exhibitors that wanted to, we asked that they give us like a 30-second clip to help drive traffic to their booths, so we have two of them on this panel. The first one is Daktronics, and

[Clip Rolls as Music Only/No Voice]

Okay, and the second is Colonial Downs.

[Clip Rolls]

Hi, I’m Ian Stewart, president of Colonial Downs. I’m here this afternoon to demonstrate our EZ Horseplay account wagering system. Our EZ Horseplay system consists of two components. We have a kiosk which allows you to open an account, deposit cash, withdraw cash and print a program. And we have a touch screen for wagering. We’re excited to be here at this symposium and we look forward to meeting you. Please come by and see us at your convenience.

I would encourage you to do that. The exhibitors and sponsors of this program actually play a major role in it and we’re very proud to have all of them, as we are very proud to have our two speakers. If you look at your program, we did have a scratch. Stephen Martino got a call from his governor who for some reason took precedent over flying here. I couldn’t understand it, but he sends his regrets.
And with that, Jack Ketterer is the speaker/moderator of this panel and then Jeffrey Smith is also on it. I’m just going to turn it over to them. Their bios are in the back of the program. You can read that, or they can tell you about themselves, so Jack.

**Mr. Jack Ketterer:** Good afternoon. As Steve said, Stephen Martino can’t be with us. He was my counterpart, director of the Kansas Racing Commission prior to going to Maryland, and so I had the opportunity to visit with Stephen and I think between Jeff and I we can maybe kind of relate at least some of what their experience was in Kansas, and maybe what’s even spacing it in Maryland.

After my remarks, Jeff will try to fill up the time. He told me that he had some slides of his grandchildren, so we’re going to — in lieu of Stephen Martino and the Q&A period at the end, we’re going to see some of Steve’s grandchildren and then their school play and some Little League Baseball and whatever else they’re involved in.

Bob Evans, this morning, did a great intro. Who would have thought the CEO of Churchill Downs would get into greyhound racing in Iowa, but I’m going to touch a little bit more on what Harrah’s is proposing in Iowa with respect to the continuation of greyhound racing and the subsidization of purses there. I’ll also talk a little bit about breeding and racing inventories as well as race dates, and just kind of give you a little bit of an assessment of the industry handle, purses and just some things that are being talked about.

Again, I would quote Mr. Evans “that some of the things that you see will not be a forecast or a prediction, but basically just an assessment and some things that are being talked about in the industry”.

So we’ll get started here as soon as the — we’ve got the — I need some help. Okay, that’s it. Okay, there you can see kind of what precipitated, if you remember Bob Evan’s talked about Harrah’s seeking to discontinue greyhound at their establishment at Horseshoe Casino and Bluffs Run in Council Bluffs, Iowa.

State Representative, Mary Mascher, is the one that has introduced the bill that would discontinue greyhound racing at not only the facility in Council Bluffs, but Dubuque Greyhound Park and Mystique Casino.

Some of her quotes, “This is not going to go away until we get rid of dog racing. It’s inevitable.”

The last point there is one that is the big concern. Only a handful of patrons attend greyhound races, and the subsidization, and that’s money that could be better used by Iowa community foundations.

I think the concern is an economic one. Some organizations, such as Grey 2K that exist solely to eradicate greyhound racing and succeeded in an initiative in Massachusetts, tend to smell blood and try to move in where they perceive a weakness, and so we see some of that in some of their campaign, but mostly it’s an economic issue and it’s a public policy issue for the legislators.

This money that we’ll refer to, and we’ll get into some of the amounts, is this money better spent on the greyhound owners and breeders and kennel operators? Or is it better spent on something where we have a need, whether it’s healthcare, education, etc.?
Bob Hardison is president of the local Greyhound Association. They’ve indicated, obviously, that they’ll fight the initiative and these are some of the statistics of what greyhound racing provides, and they put out there as far as economic development information in support of their industry. Also the fact that they are regulated and that it should not be an animal welfare issue.

This also illustrates the problem that greyhound racing is facing in Iowa. At the height of Dubuque Greyhound Park, after opening in 1985, they handled nearly $67 million. By 2009 it fell to less than $1.7 million, and that’s a decline of 97.5%.

At Bluff’s Run in Council Bluffs at about the same time their wagering peaked at about $123 million and by 2009 less than $5 million was wagered, live wagering, on-track wagering at Horseshoe.

This shows the year over year change. This is a slide that is taken from Christiansen Capital Advisers, LLC, and Eugene Christiansen, who many of you have probably heard at this symposium or other locations did a study for Harrah’s and this shows the year-over-year decline. You can see that in almost 20 years there has never been, except for two years, a situation where handle increased over the previous year, and those two are just a negligible 0.4 percent and 5.2 percent.

And then this shows more of the total Iowa yearly live greyhound handle and the decline is not as precipitous once the subsidization of the slot machines took place (where the black line is located) when the purse supplements began, and it has now declined to the $5 million from the first bar on the left that was 128.

This slide shows Bluff’s Run export handle, and I should mention also that some of the decline in the live handle can be attributed to the introduction of import simulcasting at Bluff’s Run of horses and greyhounds from other tracks. So that the people that came to Bluff’s run had the option of wagering either on the live races or simulcast races that were imported. I’m sure that diverted some of the live handle away as well.

Bluff’s export handle has shown some modest growth. I think some of that is attributable to the fact that there have been about 16-18 greyhound tracks that have closed in the last six or eight years. With less supply of races out there, more money has been directed to Bluff’s Run’s export handle, and that has helped them modestly, but obviously only 2.5 percent to 3 percent for the price of their signal.

This refers again to the report by Christiansen Capital Advisors for Harrah’s, and about $12 million annually is used to subsidize the purse money that’s won by the greyhound and kennel owners. Harrah’s offered to pay the state the $7 million so that they might save the remainder plus any operating costs because they were suffering an operating deficit.

This slide shows the subsidization of the purses. The small blue area on the bottom is the amount from live and export simulcasting and import simulcasting that is attributable to greyhound purses. The red or burgundy on the top is what amount of the purses comes from the subsidization from slot machines.

You can see that now the amount that comes from pari-mutuel sources is really only about $1 million a year of the $13 million that is given to the kennel owners.

This is an interesting graph. The pink line is the life plus export, in other words what is bet at Iowa greyhound tracks. The blue is what is supplemented for the purses. You see that
those lines cross and that now you have almost $14 million in purses, but only $5 million to $6 million may be bet on live wagering at the tracks. So it’s a pretty startling statistic.

I’m going to talk a little bit about the breeding of horses, but I just wanted to show you, for the registered greyhounds in Iowa, the breeding industry had increased but has hit somewhat of a plateau, I think, because there is limited access. There are only 14 kennels at each of our two facilities that run for 1-1/2 years. Bluff’s Run is year-round. Dubuque is a six-month facility. They are about 50 percent Iowa-owned. They have races that are restricted to Iowa breds, so all of the kennels want to have Iowa-registered greyhounds in their kennels, but obviously there’s only so much room. Some go on to race at other tracks if they trade off in Iowa, but there aren’t very good statistics in the industry to indicate how often that occurs or to what extent.

This is live handle at Prairie Meadows, and you can see that it has steadily declined. There are reasons for that. You can see in the next slide that export handle has been somewhat erratic. The effect is from things such as the length of the mixed meeting that was run for a number of years at Prairie Meadows. It ceased last year. They had separate meets for thoroughbreds and quarter horses, but the willingness of sites to take tracks, or to take race programs that had four to five quarter horse races affected from one year to the next how many sites there were that would take Prairie Meadows’ signal in the mixed meets.

I think they were also affected online by what affects the entire industry and that’s online and rebate shops that bettors within the states, and other places, divert away from Prairie Meadows.

There was an article, or a series of articles from Dan Johnson who covers Prairie Meadows and racing in Iowa. Dan is a very knowledgeable guy in racing and a big horse racing fan. He addressed the fact that $19 million a year is going to horse purses and the fact that the breeding industry, which was once flourishing, has now gone into decline. The number of foals for thoroughbreds, quarter horses and standardbreds has dropped by 34 percent from 2001 to 2009. It is even more so with thoroughbreds and quarter horses.

Standardbreds have a county fair circuit that is non-pari-mutuel that they’ve had for probably half a century. They have held together better, I think, from the breeding aspect somewhat because Prairie Meadows has geared down its racing program for standardbreds more to accommodate the county fair circuits, those local owners, breeders, drivers and trainers. So it enables them to participate and do so successfully at a more modest purse level. The only issue there is that it does not generate much interest because of the level of racing or the quality of racing that is taking place.

Sandra Rasmussen has traditionally been the leading breeder of thoroughbreds and one of the issues that she has, as a lot of breeders do, is Prairie Meadows running their thoroughbred meet that only goes from about the first week in August, to the start of the week before the Kentucky Derby.

Previously, the thoroughbred meet would only last until around the 4th of July or mid July and it would be followed by a mixed meet. So there would be thoroughbred racing maybe only six races a day, but it would last until the end of September. The breeders liked that, obviously, because they could race their two-year-olds later in the year.

Ironically, now, there were fewer thoroughbred foals in Iowa in 2009 than there were before Prairie Meadows opened in 1989, 237 to 256.
One of the things, and I’m going to go into these in a little bit, but one of the things that also could be mentioned is that I think that it was difficult for the breeders to catch up to the purse levels in thoroughbred racing in Iowa. The purse levels grew with casino gambling. Obviously, with the slots, it grew at Prairie Meadows. In 2004, the tracks were able to introduce table games, so they expanded and had new additions to their facilities.

That ended up growing adjusted gross revenue. Purses were set at 11 percent of the adjusted gross revenue, so obviously those of you in the breeding industry know, and even if you don’t or not aware, it takes three to four years of looking out beyond the present when you make the decisions of what kind of animal you’re going to breed or eventually race or sell. From this time to that time, purses may have grown and so the animal they bred wasn’t as competitive as they thought it would be. I think there was some segment of the breeding industry that said, “Well, I’m trying to do this with eight, or nine or ten mares. What I need to do is to sell these and try to get two or three good mares that I can breed to stallions that will be good enough to compete at this level,” and that makes the overall inventory decline.

So if we look at these three, the economy, racing days and the lack of incentive to breed quality stallions that Dan Johnson pointed to in his article, obviously, horse breeding is down nationwide.

The 2010 foal crop was down to 30,000 and Bob Evans alluded to this this morning, the picture isn’t real pretty for the next two to three years.

This is the conflict that we have in Iowa, obviously, that breeders want a longer season because of the issues that I’ve mentioned and Prairie Meadows wants to shorten its racing calendar to reduce the cost.

This has been a source of consternation because there are many politically motivated people in Polk County, which is where Prairie Meadows is located. Central Iowa and the greater Des Moines area, believe that too much is being lost or too much is being spent on racing and the subsidy is too large. They’re pointing at $33 million. Horse interests have had their own accountants look at it and think it should be closer to $20 million, which is about the amount of the purse subsidization and then follows with the meets that Prairie Meadows has. Prairie Meadows, I think, has asked the commission to discontinue the harness meet in the future and provide some level of support for the county fair, non-pari-mutuel meets to benefit the harness interests.

The commission has asked that Prairie Meadows make some assumptions and take their best estimate as how much is lost because this has been a source of irritation as to what they actually are losing in the racing. I think that will be better. There will obviously be some assumptions that this will have to be based upon, such as the lease, utilities and some of the fixed expenses that would still be there. Arguably, if Prairie Meadows discontinued racing, but they allocate some of those to racing and different sites will differ on what these assumptions would be, but at least they can isolate those and have a better idea.

With breeders this was a source of concern and they point to this as a problem where there’s no incentive to keep an Iowa stallion in the state because some breeders can go to Kentucky and breed their mares and come back. As you can see on the bottom point there, there’s only been one of the top ten Iowa breds that was by an Iowa stallion as opposed to a stallion from another state and the foal dropped in Iowa.
About half of the horses now at Prairie Meadows are Iowa-breds. They won close to half the purse money. Twenty percent of the money is dedicated to Iowa-bred restricted races and owner supplements so that if an Iowa-bred wins or places they can earn additional money, whether it’s a restricted race or an open race. He gave a comparison with Canterbury where the Minnesota breds are about a quarter of the purse money.

That’s been a source of contention, as well, that whole argument. A lot of people that are against supporting racing, or supporting racing at the level that it’s currently being supported, point to the money that’s leaving the state to out-of-state owners. This really ignores the investment that these people have in their trainer and in all the labor and expenses that are brought into Iowa. As most of you know that own and sell horses, when the purse is taken out, it exceeds the amount of expenses that go in and are spent at the location of the racetrack.

Really, I think that some of it is, again, political, but as Dan says, I don’t think that there is support statewide for reducing the purses. I think the legislators — there are probably horse breeders, owners and trainers, and there are 99 counties in Iowa, and probably a legislator is touched from every one of the counties and between the three breeds of horses, and so they don’t — if they ask, where does this money go if we decrease the purses or racing goes away, then it really falls — since Prairie Meadows is nonprofit, it will probably go to Polk County. If many of you have a city or metropolitan area in your state that is the most populous, the rural interest and the feel is that the city or the capitol gets all of the benefits from the legislature. So they’re not really interested in supporting anything that would just give one more source of revenue or development to Polk County. So I don’t think that there is statewide support for that, and you can see that the purses are 11 percent after the ’04 change.

The increased purses that we’ve had and, again, that’s about $19-20 million a year right now, have not increased mutual handle and have not had the desired impact on the breeding industry with negligible gain in at least the number of horses, if any. I mentioned earlier about the breeders trying to catch up to the purse money.

So some of the things that have been talked about is, is purse money really the best source for the money to help the industry? Should some of it be directed to marketing? Should some of it be directed to the breeding industry, and a couple of things have been talked about.

The oversupply of races and, again, Mr. Evans alluded to that this morning. It appears that the industry from the Monmouth experience, yeah, you can see the tracks reducing the number of days that they’re running in California, Texas, and I think that there will be more and more of this.

The average purse is not necessarily diminished, and when that happens it would be increased if it’s divided by a larger number of races. So would some of it be redirected if the purses would increase because of the reduction in racing dates or races?

So the marketing of events by experts in the sport’s entertainment industry, I thought it was a very interesting slide this morning, about at what — you know, handle is declining, but if you take the top 25 races, they show an increase of 15 percent in handle over the same time period. It becomes like the top 465, or something, races where handle was flat as opposed to the decline over the same time period for all races.
So I think that shows and, again, as he said, there is interest, and there is interest in quality. More attention would need to be placed upon some of these events like we see Festivals of Racing occurring over one or two weekends. A lot of race meets, and those types of marketing events, I think, are what people are talking about.

Obviously, the breeders want more opportunities that the tracks can’t provide for their bonuses and awards. They can only race — unless it’s a state that has tracks racing 9-12 months a year, if it’s six months or less, they don’t feel like they can recoup their investment especially if they’re an owner/breeder operation in six months, with the bonuses and awards they get, and they’re not inclined to go elsewhere to race.

So if there was more money directed to breeders, they feel that they could increase their numbers and maybe that they would be provided awards for wins in other states that would create value to them beyond the reduced rates at their own track. The better quality of horses that would be produced would benefit their sales. It would encourage owners/breeders to race their horses beyond the borders of the state.

This is just something that I included. It was from the Iowa Thoroughbred Breeders and Owners Association monthly newsletter last month. It was an article by Gail Radke, the executive board for Illinois Thoroughbred Breeders and Owners Fund. It has a proposal where Illinois, Indiana and Iowa breeders would have a three-year commitment for $600,000 races each year for thoroughbreds conceived or foaled in one of those three states.

That’s a great way to spotlight the breeders, the tracks and the racing industry in the Midwest. It would be for three and up horses, competing against each other. The races would rotate from state to state. They would have possibly a special bonus award for a horse that would win three of these races.

In conclusion, I think that we’re going to have to ask, as an industry, rather than what it does for the owners, breeders, trainers, jockeys, whatever stakeholder it is, what’s in it for me? And more of what can we do for the public that would make them want to preserve our game.

It even goes beyond our fans, which I think would be number one, but those fans (as we all know) are aging or declining. So what is it that can excite the public into saying that they want to preserve this sport? Because, otherwise, I can guarantee that no matter what state, at some time there are going to be legislators that see that money. They’re going to wonder if their project (public policy-wise) would win over the public and that purse money would be taken away.

So, because you have it the first time when the legislation is passed, doesn’t mean it’s a grandfathered right. It only lasts until the next session.

So with that, I’m going to close and ask Jeff to come up and impart some of his wisdom in the latest goings on with his grandchildren. Thank you.

[Applause]

Mr. Jeffrey Smith: Thank you, Jack. You know, I was asked to play in a golf tournament rather than being here, with the nice weather and everything. I told them, you know, I’m really not that good of a golfer and they said, oh, come on it’s for handicapped and blind
kids, and I thought, man, I might be able to win that thing, but instead I’m here with you all.

And Jack is much too modest. He is the Regulator of the Year for 2010. I’m going to get this autographed by you when you get that later, but his work has been recognized all over and that is a national publication, so congratulations, Jack.

And congratulations to Doug Reed and all of his University of Arizona team for all the good work that they do here in putting on this symposium. They’ve done it for a number of years and Doug has been here for a majority of those, and they just really do a very good job.

Racinos, when a blessing becomes a burden. I feel like I’m eminently qualified to talk about this. I have the pleasure of serving as the general manager of racing at Hoosier Park. I’ve been involved with Hoosier Park from its inception, although not in that capacity, and I have — I really believe that in Indiana we have both several burdens and blessings associated with the advent of slot machines at the racetrack. I appreciate the opportunity to briefly let you know what some of those are and give you my thoughts on it.

First, a quick overview:

Riverboats were legalized in 1993. Racing was not operational at that time. There was a pari-mutuel law that was passed in the late 80s that allowed pari-mutuel wagering, but it just didn’t seem to be feasible to build a track at that time.

When the river boat casino Law was passed in 1993, along with it came a subsidy that would go to the racing industry and so all of a sudden it made sense for a racetrack to be built. The river boat gaming law provides for riverboats up on the lake, in the northwestern part of the state, five riverboats down on the southern Ohio River border, and one in Larry Bird’s hometown of French Lick, just for good measure.

We had opened our Hoosier Park Casino in 2008. We opened the track in 1994 and enjoyed this subsidy from the casino riverboats just solely by ourselves up until Indiana Downs came on board. They opened up their racetrack in Shelbyville in 2002. Both those racetracks essentially serve the center of the state in the Indianapolis market area.

Much the same, the interest in Indiana Downs was similar to what Jack was talking about in Iowa where the breeders and the hometown folks felt like they needed more racing opportunities to allow the industry to grow. Indiana Downs came on board and we were finally, in 2007, the racetracks were allotted 2,000 slot machines at each of those.

I might also say that the legalization of the slot machines at the racetrack was not anything necessarily beneficial for the racetracks. It was principally because the state needed property tax relief. We have seen that, in state after state, where the need for revenue overrides lack of desire for gaming, and off we go.

Our gaming license fee can easily be classified as a heavy burden, without a doubt. For the right to offer slots, we had to pay upfront, by the way, before we opened up the facility, a $250 million license fee. As I mentioned, the main impetus for this was property tax relief. The two tracks then provided over $0.5 billion of tax relief in that year.

Our license fee was also five times higher than the previous highest license fee at that time, $50 million in Pennsylvania. I might mention that this graph, in certain of those states where the license fee varies according to the number of machines, this screen/this slide
shows what the license fee would be if you had 2,000 slot machines, similar to the racetracks in Indiana.

The financial burden of the $250 million has really proven a bit too much for Hoosier Park. We are currently restructuring our debt which is a kind way of saying that we’re in bankruptcy. Indiana Downs, I believe, is probably in the initial stages of that as well.

Although having high license fees is quite cumbersome, it may not have been so bad if we had a gaming tax that was a little more favorable than our competition.

No such luck here. Yet another burden for us is the fact that our gaming fees, and they are mandatory payments, comprise 46.9 percent of our adjusted gaming revenues. And you can see that’s significantly higher than the riverboats.

The gaming tax in Indiana is graduated, so the more gaming you have, the higher the rate goes. That’s why you can see some of the columns on the left-hand side, while they have a higher tax rate, they are doing almost $500 million in adjusted gaming receipts a year.

When Hoosier Park is compared to riverboats, it generates generally the same level of AGR as we do which would be the orange column in the center, the Blue Chip Riverboat. You’ll see that there is an obvious disparity there. We end up paying almost 15 percent more in gaming taxes and mandatory payments, payments to the local community, payments to the horse industry and others.

Finally, a little blessing of sorts, I mentioned that we have 15 percent of our gaming AGR that goes towards the horse industry. I also mentioned that prior to casino gaming coming to the racetracks we received a supplement from the casino gaming. That supplement equated to about $17 million dollars that went to the industry, principally in the form of purses and breed development, awards, restrictive races, breeders and stallion awards, and those sorts of things.

As this chart will show you, 2007 had $17 million in subsidy compared to the almost $60 million that the industry enjoyed in 2009, the first full year that we had slots at the racinos. So, from the horse side of things, it truly has been a blessing. They’re receiving almost four times as much in benefit from gaming than they had previous to the racinos.

This substantial investment in the horse industry has had a major impact, a major positive impact on the quality of our racing, as well as the state’s breeding industry.

Here, you can see the rather meaningful improvement that we’ve had in the quality of our racing program. On the left, you’ll see the purse comparison for thoroughbreds and the standardbreds are on the right-hand side. This compares the total purses paid in 2007 to the total purses paid this year for recently completed race meets. And on both of those breeds, and it’s the same for quarter horses, that the level of purses has almost doubled.

You’ll also notice that a majority of that increase is coming on to the breed development side of things. This has helped significantly with the funding of breed development initiatives. It also has improved the quality of our racing program. It has shown up in positive results on our bottom line.

On this most recently completed thoroughbred meet, our on-track handle was up 16 percent over the same handle in 2009. The export of our signal, nationwide, also increased
eight percent. While these are not huge increases, we all can appreciate any positive increase and particularly in these economic times.

The registered foals are compared for 2007 and 2009. As I mentioned, the gaming funding has provided considerable increases in state-restricted races as well as breeder and stallion awards. In just two short years we’ve had significantly more participation in our breeding programs.

This shows that the total register of foals has increased over 40 percent from 2007 in just two years. And is the investment that we’ve heard, the investment in Iowa, being questioned? Is the investment of racing, and whether it comes in the form of purse supplements or other things coming from gaming, is it worth it? Is the $60 million in the Indiana horse industry worth it?

Well, the results of a preliminary Purdue University study suggests that it is. In 2003, the American Horse Council completed an economic impact study of the Indiana horse racing and breeding industry. This concluded that our industry had an annual economic impact on the state of approximately $294 million. The more recently completed Purdue study takes into consideration the operation of the racinos as well with its employment. The economic impact of the racinos, racing and breeding industry now registers above the $1 billion mark.

So is the investment in the racing industry worth it in Indiana? Well, the preliminary numbers suggest that it is. We haven’t been around and haven’t had gaming, Jack, for as long as you have had in Iowa, but right now it is certainly a blessing for us.

I firmly believe that the key to maximizing the benefits of alternative gaming at your facilities is to integrate racing and gaming to the maximum extent that you possibly can. If you’re fortunate enough to have alternative gaming, you’ve got to take the opportunity to expose, in our case, three million visitors a year that are coming for the casino gaming, and expose those folks to racing. You have to do that in order to maximize the benefit.

In our case, one key for us has been a truly integrative facility. The fundamental design goal of ours was to provide a seamless, fully integrated, multi-dimensional entertainment experience.

On the right, you’ll see the casino building that houses the 2,000 slots which are required to be a restricted area, age-restricted. On the left, you’ll see our grandstand and clubhouse building. They are connected by a glass-enclosed connector with a monumental staircase, escalators and elevators.

While we have these restricted areas that we’re required to have for the actual gaming floor, we purposely located all of our dining venues, but one, in the old grandstand clubhouse building. In addition to that, we renovated virtually every aspect of our grandstand clubhouse area.

I mentioned that eight out of nine of our dining outlets are located on the racetrack side of the facility. The food venues are a very popular way for people to redeem their reward points. They go from free buffets, to a free meal in our steakhouse, or in our Home Stretch Dining Room.

So when they get over there we want them to have some exposure to racing. They walk by the simulcast area that we have in the grandstand, and while they may not have an interest in racing, at least they get a chance to experience racing to some degree.
In addition, our major VIP events, and we have several of those throughout the year, where we have our very best racing as well as gaming customers come over for concerts, dinners and that sort of thing. They come over and they are exposed to racing as well, and to me it’s unbelievable the level of play some of these folks have for putting it in through a slot machine. If they have a lot of disposable income, and they obviously like to take risks, then I think horse ownership is a perfect spot for them to get their introduction into racing. And we actually have exposed them to that quite a bit by getting them right in at the starting gate, by giving them rides around the track in two-seaters with their favorite drivers, having promotions for our VIPs that are tied to horse racing results.

Hoosier Park Racing Casino is also marketed as Indiana’s favorite destination for racing, gaming, dining and entertainment. We have utilized a truly integrated marketing approach. There’s no “them” or “we,” and it’s all “us.” We have one brand, one rewards club, one marketing effort and from the marketing perspective, we really truly emphasize that everything is totally integrated. We really attempt to market the entire Hoosier Park experience.

We have numerous entertainment events and special attractions at the park for the pleasure of our guests, and every effort is made to incorporate racing with them.

All three of these events were held at the trackside or in our clubhouse. We had the “Pawn Stars” there, not the porn stars. Craig Fravel came up and he was all nervous about it. He thought I beat him out on something. You know, he’s got the Cougar Contest at Del Mar fame, and I said, “No, no, Craig, these are ‘Pawn Stars,’” and I didn’t know very much about these rascals, but I want to tell you, they’re the highest rated show on the History Channel and they have one heck of a following.

They did everything at our facility. They had their normal buying of items. They filmed at the track, so we’re going to be in one of their upcoming episodes, but they also just interacted with our racing VIPs and guests in a variety of different ways, from being involved in a dinner, to having some special little things that we did in the clubhouse with them. And Chumlee, and I don’t know how many of you are “Pawn Star” fans, but Chumlee actually announced a race for us.

I came up with that idea, and I had anticipated that it was going to just be the in-house feat, and I thought, “Oh, what the hell, you know, let’s do it.” We got the word around, and would you know that that race actually was the highest handled race that we had that evening. And if he said, “Around the turn they come,” and I don’t know how many turns we have at the racetrack, but he said it about ten times.

At all of our concerts and other events, we involve our drivers and our jockeys, particularly. We have our Fab Five standardbred drivers with their various challengers that we introduce to our patrons in a variety of different ways.

Here, they’re involved with introducing The Beach Boys which anchored a large day of racing that we had at Hoosier Park. Francisco Torres and Orlando Mojica got the mixed martial arts crowd on their feet with a game involving a televised replay of one of their races that came right down to the end.

I really consider this type of exposure to be one of the true blessings that we have with slots at the racetrack. The slots attract crowds, without a doubt. They come streaming from all over, and to give them some exposure to racing gives us, in my opinion, the
opportunity to try to generate some new race fans, and Lord knows we’ve all tried in a variety of different ways.

I don’t know how many panels Doug has had here over the 37 years, on how to build fan base. It’s just difficult, and we’re having a lot of fun with it, and we really, I think, are beginning to see some real benefit of it, so much so that now the other drivers are complaining, “Well, why can’t I be a Fab Five,” or one of the challengers, and so we’re looking at that. We involve everybody.

So how does Hoosier Park stack up on the blessing or burden count? Well, the economic model for racing in Indiana simply does not work for the track, that’s for sure, or the track owners, so that’s definitely an F.

The improved racing prerogative has been a refreshing change. I believe it’s going to continue to grow as well. So our better quality racing product has fueled increases in our business levels, and nothing too exciting, but growth nonetheless, and the breeding industry really has been the big winner so much so that we’re beginning to see a little bit of in-fighting about maybe we ought to divert more of that money to more of the restricted races, higher stallion fees or higher breeders’ awards.

I consider all those things success issues, and our commission has gotten behind a program to increase the quality of racing. I think it’s going to really pay some huge dividends for the state and for us, going forward.

Finally, adding slots with meaningful integration positions racing to prosper in my mind.

While the financial model has been a bit stormy for our investors, alternative gaming is having a very positive impact in Indiana. My simple keys are things that you haven’t heard before.

Get slots. You definitely need to have alternative gaming. Everybody has found that out long before I did.

Get a reasonable license fee, get a reasonable tax rate and maximize the integration. Make and market a purposeful design of your facility to give some exposure to racing for your gaming fans.

Do all this, and I believe you’re going to find your pot of gold at the end of the rainbow.

I really appreciate the opportunity to be here, and I think we’d be happy to answer any questions that you all might have.

[Applause]

Mr. Jack Ketterer: I think Kansas suffered somewhat what Jeff was talking about that happened to Hoosier Park in terms of almost a barrier to entry into the fee that they have to pay. One of the owners in Kansas, the late Bill Grace, had a casino in southern Iowa, and we’re aware that we regulate racetracks and casinos in Iowa, and he purchased the Woodlands in Kansas, out of bankruptcy, and he hoped that three would be something similar to Iowa that would happen legislatively down there.

There were a couple of guys that were managers in Iowa that were in charge of the project down there. Legislatively, they tried and tried, and finally did get alternative gaming
passed, but the parameters that the legislation had really didn’t make it work, economically. I think they had a limit of 400-500 slot machines, and it amounted to about a 50 percent tax, and so it really wasn’t going to work, economically, for the tracks. So they ended up closing the tracks and really haven’t had any racinos to speak of in Kansas.

I think somewhat the same situation has occurred in Florida, and in basically other places. I think one of the things I remembered from this morning that Mr. Evans proposed in his model was that there would be an assumption until 2020 of about a five percent increase in purse subsidies. I think that was probably based upon new states that would have introduced alternative gaming as opposed to maybe that purse subsidies would grow in existing states that had racinos, but I think in either case that’s not necessarily a sure thing.

If you get situations where you get legislation in new states, and you have situations like Kansas or Florida, or even again for Indiana, Jeff has shown you the challenge that this presents for them. You may not get that increase in purses, and unless you can show (as Jeff has done) the increase in the economic impact from the breeding industry, which I think is very important and very persuasive to legislators. If you don’t have that, then the legislators, when they need the money, they’re saying, “Do we really need racing, or do we need that much of a purse subsidy? Can’t we use that in my healthcare bill, or my education bill?”

So those are the things that I think we need to watch out for.

We have a question.

**Mr. Mike Campbell:** It’s a question and comment at the same time. I’m Mike Campbell from the Illinois Thoroughbred Horse Racing Association. This, if you’re talking about a relationship, the relationship or marriage as you used in this example, it’s a marriage that’s committed to, fundamentally, revenue to the state. That’s where it begins at.

Secondly, it obligates itself to a commitment between management and the horsemen’s association. And the ultimate goal is to raise purses. So these balance sheets that we look at that commit to having one balance sheet, are two balance sheets. One side is for the casino side of the operation, and one side is to the racing side of the operation. This ultimately might demise horse racing.

What I’m trying to obligate myself to is an understanding that the spirit of the legislation itself speaks to, and in all these general assemblies, is to create a better opportunity for the horse racing industry.

The fact that these licensees have operational licenses is committed to the fact that the racing industry is supposed to be enhanced. The racing industry and the breeding operations are supposed to be enhanced.

That’s the spirit of the legislation. It’s not so that individual platforms can enhance their own special interests.

So I’d like to see a commitment and understanding that’s made clear right at this time that the spirit of these marriages, of these relationships, is not about individual platforms. It’s about a relationship and a commitment to horse racing and the horse racing industry and breeding industries.

Thank you.
Mr. Scott Wells: Scott Wells, president and general manager of Remington Park, and I’d like to compliment the gentleman on his pointing out that key point. The legislation in Oklahoma was very favorably designed, written and passed by a 60/40 percent margin, and the racing opportunities for Oklahoma horsemen were vastly expanded, and although it’s often said that we lose money on the racing side and we make money on the casino side, the fact is that the 51,000 full-time jobs related to the horse industry in Oklahoma, about half of which are related to the racing industry, would have dwindled the formerly 300 employees at Remington Park which is now 650 and growing would not exist at all. You can’t have a viable breeding industry without a successful racetrack. If the racetrack is a racino, then somehow that bottom line has to be made viable.

Male Voice: Absolutely. One of the real benefits of this industry is its uniqueness in its ability to distribute economic benefit throughout the entire state because when you pay purses, when you pay breeder and stallion awards and other payments to the breeding industry, it gets filtered down and distributed through, and in Indiana’s case, 90 of the 92 counties.

Also in the case of Indiana, where you’re chiefly an agricultural state in terms of just the land mass, that’s a very, very positive and strong argument.

Mr. Ken Lowe: My name is Ken Lowe from Charlestown, and pardon my voice, as I’m not used to the dry weather out here.

What the two gentlemen said is exactly correct. The state of West Virginia, and we’re having a pretty good time right now in Charleston, and you’re probably aware of that.

I’m a lifelong resident of the county where the track is located. The people in that county were sold a bill of goods in the sense that if the state doesn’t follow through on what we were told, we should sue them all until the cows some home.

We were told, if you vote for this, it will promote racing, and it will continue racing.

We actually live in a no-growth county, believe it or not, because we’re an hour west of Washington, DC. Some people move there and don’t want anything else to happen. They bought into that because horse racing meant green space. It meant farms. It meant all the things you know about and all the economic things.

You’ve all done economic studies, and we’ve done two of them. I’ve got another one coming that some folks don’t know about.

But we were told if we voted for slots, then we voted for table games. We turned table games down the first time because we didn’t think we got a big enough piece, so we went up to 2.5 percent with the tables for the horseman and two percent for the breeders, but we were guaranteed, and there’s somebody here that can vouch for this. Our legislation says to promote horse racing, period.

There’s more to it. We were told if we voted for it, we got tables, we got slots, and racing would continue.
I’m going to go on the record. I dare the state of West Virginia, and the politicians, to renege on that factor. I dare them, and I don’t think they’ll do that.

That’s a strong thing for me to say. I’m a businessman, and I’m the president of the HBPA too, but I also believe that horse racing, perhaps standardbreds too, and I’m sure it’s the same thing, dog racing, we don’t follow through strong enough politically.

I’m somewhat known as a behind-the-scenes political guy, friends of certain people not because they give money, but because I’m credible. I’m the chairman of this, and been on the tourism commission, etc. but we do things politically as everybody does, but we don’t act as a group.

I’ve suggested to my board, to my group of all the horsemen, every horseman in ever state should own at least one share of stock in every racetrack. You should be a stockowner of that track. You should be at that stockholder’s meeting.

I don’t care if it’s in New York or if it’s in California, you should be there. You should have a voice. You should know what the financial record says. You should know about the capital improvement fund. You should know where all the money goes.

I may be preaching to the choir, but we’re not active politically the way we should be. If you want to stay in this world today, you know what I’m talking about.

Look what’s happening in Washington. Look at the stimulus money that went to Detroit. Do you think that wasn’t politics? Well, of course, it was and a lot of the other things that go on there. It’s the same thing on the lower level in the state legislature.

We don’t get it. We don’t do it right. We haven’t done it right.

I’m 62 years old and I’ve been in this thing for a while. We still don’t get it. You’ve got to go to Charles Town, my state capitol. You’ve got to go to your state capitol. You’ve got to get to know the people. You have got to know the players. You have to have credibility, and you have to educate them all the time.

Horse racing, in my opinion, is missing the boat because we’re not politically active enough. Sit back and wait for something to happen, and you know what will happen, you’ll be on the outside looking in.

You’ve got to go get them, folks. If you don’t, they’re going to get you. That’s my opinion.

Mr. Jeff Smith: No, I think you’re exactly right, and we had in Indiana, some loose efforts, early on, but it wasn’t until we had a racing coalition led, principally by the horsemen and breeders that we began to get some traction with the legislators and getting them educated as to the significance of the industry. Very true.

Mr. Jack Ketterer: Any other questions?

Well, both Jeff and I sincerely appreciate your attention and thank you. Enjoy this symposium and the weather. Thank you.

[Applause]