



Race Track Industry Program

**37th ANNUAL
SYMPOSIUM ON RACING & GAMING**

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The State of California Racing

MODERATOR:

Jay Privman, National Correspondent, Daily Racing Form

SPEAKERS:

Joseph Harper, CEO, Del Mar Thoroughbred Club

David Israel, Vice Chairman, California Horse Racing Board

Norman C. Towne, Consulting and Advocacy

Mr. Doug Reed: Thank you very much. Once again, thanks for being here. On behalf of the Race Track Industry Program, we really appreciate you, the attendees, because all of you sitting here support our program. Make no bones about it, this is a vital piece of our program, not only financially but also for the students here. I tell them they can't get a better week of education than being here. We cancel our classes and encourage them to be here. So we appreciate everybody's participation.

We want to thank our refreshment break sponsor, earlier, equine.com and then Del Mar Thoroughbred Club sponsors the beverage break following this session. Breakfast was provided by Equibase. This panel is provided to you by Sportech, Inc.

Let's get started and I probably need no introduction, but our moderator Jay Privman is the national correspondent for the *Daily Racing Form*. I'm sure most of you have seen him on ESPN or ABC. He formally was the West Coast, *New York Times* Correspondent. He's won numerous awards in his field including the Red Smith Kentucky Derby Writing Contest, the Joe Hirsch Award, and the Walter Haight Award.

We're excited to have Jay here as the moderator. He certainly is one that is very familiar with racing in California. Welcome, Jay.

[Applause]

Mr. Jay Privman: We're going to sort of handle this as Doug asked me to do it "Donahue" style, so I'm going to go back and sit with the panelists. We have an hour here. I am going to stop about 15 minutes into it so that we can have about a ten-minute question and answer thing at the end, because I'm sure there will be some things brought up that people would want to inquire about.

As many of you know, California Racing, like much of racing is certainly in a challenging situation right now. There have been many controversies over the nature of the synthetic surfaces versus dirt. At the end of this month, there's going to be a raise in takeout. The attempt of that is to be raising purses. And many other things are going on in the sport right now in California that are certainly big challenges.

To me, we have a really good panel here today to talk about all of that, people who bring quite a diverse cross-section of opinions here. We've got a racetrack operator in Joe Harper, who is the chief executive officer of Del Mar. He's nearest to me.

In the middle is David Israel. He's the vice chairman of the California Horse Racing Board. So he can certainly offer perspective from a regulator.

At the far end is Norm Towne who has been a longtime industry lobbyist based in Sacramento, so he can sort of get us up to speed on some of the machinations of getting legislation through in Sacramento and the prospects of things going forward in that regard.

I grew up in California. I was born and raised there. In the late 1970s to early 1980s it was certainly considered the elite circuit. I still think that in terms of the facilities that are in California, and I mean they're all world class racetracks, you have unquestionably the best weather for training. So there are certainly many things from which to build even in these challenging times.

With that, I would like to first open this up to the three of you, but Joe first. As a track operator, coming up right now on December 26th there's going to be a takeout raise for some of the exotic wagers. The money from that, the difference, is going to be going to purses. What do you feel is sort of the dividing line here on where you can sort of balance what is an appropriate raise where you're not going to disenfranchise your bettors, but by the same token where you're going to keep people in the game as owners longer.

Mr. Joseph Harper: Well, I think, you know their increase in takeout is kind of like an increase in prices. You handle it the same way. You hate to do it. Most of us in California, I don't think any one of us really wanted to do this, but we felt we had to. You know, it's hard to find that nickel candy bar now too. And I think that where we are in California compared to the rest of the nation, this is not a big deal if you look at all the other percentages.

I mean we're still WPS. They're still one of the lowest in the country. Most of the other exotic wagers that we raised really are still below most of the major tracks in the country with few exceptions. Kentucky is one of them, but NYRA and the Chicago tracks, the Florida tracks, they're all higher than we are, even when we raised it.

So I don't think that it's something that we're going out on a limb here within the industry, but still something. All the money that comes out of that increased takeout goes right into overnight purses. You're looking at a state that isn't going to get slot machine revenues. There are no subsidies in our purses in California. That makes this decision a hard decision but it makes it a little easier to hopefully understand that we're trying to stay in the game a little longer. We need the money. We need that money in the purses.

We're going to have fewer horses, obviously bred in California like the rest of the country, but maybe even more drastic, we want the horses to stay. We want our product to get better and we feel that, unfortunately, this is a good way to do it. I'd love to have some

other way to not tell the bettors that are the backbone of us, that I'm sorry we're going to increase it.

Mr. Jay Privman: Is there a concern over, like I said, disenfranchising bettors, or do you think it's a small enough percentage of an increase and as you said, compared to other places around the country where the benefits to the owners will certainly offset all that.

Mr. Joseph Harper: Yeah, I think the vast majority of our hardcore gamblers — and that's the one who's going to complain, and certainly is, and probably rightly so. I would if I were there, but I think they understand it. They know the game just as well as the rest of us, and they can see where it's headed and what we need to do to fix things. I think the vast majority of those people are going to say, "Well, that's too bad but I'm not going to run off to some other jurisdiction with a higher takeout," so I think it will all — my apologies to them. I hated to make that decision, but I think we'll be fine.

Mr. Jay Privman: I wanted to follow up with Norm on something you just mentioned. Norm, Joe mentioned that he doesn't see any possibility of slot revenue coming in to California. That's obviously something where California has both hands really tied behind their back when you compare what's going on around the country in places like Delaware and Indiana, places where, Sunland Park, for instance, where just slot revenue has certainly helped in Pennsylvania and whatnot.

You're in Sacramento. You see how things work there. Why can't there be the possibility of something like that happening, at least not in the near term, and maybe in the long-term is there any way that this can be alleviated.

Mr. Norman Towne: Thank you, Jay. I don't see it happening. In Sacramento, there's been a huge paradigm shift that came about because of two things. One, the Indian casinos opening in California, and we've got 100-some odd tribes in California and 60+ tribes have casinos. They have a tremendous war chest which they use to their advantage in the legislature and with the administration in terms of campaign contributions and so on, which racing can no longer match.

We were top dog at one time, but no longer is that the reality, and in fact it's much more difficult today because we have term limits in California and our legislature is constantly turning over. So, as a result of that, you've got to be playing every year in the campaign contribution environment, and you've got to be a major player.

Historical presence is no longer as relevant as it used to be and racing is, quite frankly, low on the radar screen up there now, much lower than it was in its heyday. The tribes have a huge advantage. In the near term, I certainly don't see it happening. If it were to happen in the long-term, at that point, everybody will have it including the hotels, the restaurants, the lounges and so on. So the advantage to having it will be much diminished.

Mr. Jay Privman: And then a follow-up question for you, and then Joe I would like you to respond to this as well. I mean, is there any movement afoot among the racetracks to try and do some sort of a partnership in California with the Indian casinos to try and maybe get the best of both worlds? I know that has been something that's been attempted or viewed in the past, but where does that stand in December of 2010?

Mr. Norman Towne: Joe might be better to answer that than I, but I can tell you that the well was poisoned. When California made the attempt to get slot machine gambling via the initiative process a few years back, they spent roughly \$25 million in trying to do that and

were defeated at the polls. That left a bad taste in the mouth of the tribes. They haven't forgotten it, and it's difficult to establish relationships.

Del Mar has done a terrific job of that. They have partnered with their local casino tribes to try and do joint marketing ventures and so on there. Some of the other tracks have done the same thing, and I think its baby steps. They're going to have to try and do that, and down the road there may be some openings as people's memories fade.

Mr. Joseph Harper: Yeah, I think we have no negotiating power, none. We have nothing they want, you know? So I mean other than going in and getting on your knees and begging there is not much left we can do.

I think, Norm points out when the initiative process came about, I can say one thing that Del Mar was very opposed to what happened. The other tracks jumped on it, and we didn't think it was a good idea because then and now there is no way that you're going to win with those kinds of things. It's just going to cost you a lot of money.

At the time, when that initiative came out, we started apologizing to all the tribes that we were doing business with, and fortunately we kept a relationship with them throughout the years. And the relationship is basically sponsorship deals. We've had good success with them. They love to come to the track. We like them. They're good for our business and maybe there is some impact on the satellite business, but I think very little, but I do think that it's just not even a one percent chance of going into a partnership deal with their money.

Sometimes, if there is something that they really feel that they need, whether it's an expansion of the game or some type of new bet that might be very beneficial to them, and they need some legislative help in that direction, then maybe we'd have a little leg to stand on, but until then, I don't think so.

Mr. Jay Privman: David, let me bring you in. I mean, you're very close to Governor Schwarzenegger, who is now going to be leaving office, but what do you —

Mr. David Israel: A lot of good that does, right?

Jay Privman: Yeah, so what have you seen in terms of your relationship with him and the way that state Government, as you being in the regulation business on the racing board, how someone like Schwarzenegger, and maybe now with Jerry Brown coming in, how that dynamic might change vis-à-vis racing in California.

Mr. David Israel: Change in what way?

Mr. Jay Privman: That's what I'm asking you. How will it change? Or won't it, in terms of the way the —

Mr. David Israel: Do I believe there's going to be any initiative taken in Sacramento to introduce slot machines to the racetracks? The answer is no.

Mr. Jay Privman: No, not necessarily that, just in general, how/what kind of a priority, if any, racing is in terms of —

Mr. David Israel: Given all the problems we have in California, it's a low priority. I mean, right now there's a budget deficit that's \$6 billion. In three weeks, it's going to be \$25 billion. Racing is not going to fix that budget deficit.

What's important is that they understand racing is an important aspect and an important little corner of our community that's worth preserving, and I think if the board and the industry work together they'll help us to do things to sustain the industry.

An example was the takeout increase. We didn't actually have to run legislation to increase the takeout. The law allows for takeout to be between 10-25 percent. We had to run the legislation so that all of that increase went into overnight purses and was not deducted, statutorily, as is required with all the rest of the takeout. So that was the advantage.

The add-on about exchange wagering that Betfair ran, that amendment didn't appeal to me, but I was in favor of it because I thought it was necessary to increase the takeout, to increase fields, to make it a better game.

I think we're better off trying to focus on how to improve the game, how to better market it, how to get a younger audience and instead of running back to government to give the industry handouts.

Mr. Jay Privman: I want to follow up on that point in a minute, but you brought up something that I want to finish off, and that is concurrent with the bill that went through on the takeout raise was, at least in the future, the potential for exchange betting. I'll start with you, but I wanted to get opinions of the three of you, is there a model that works for California tracks, specifically, and maybe the —

Mr. David Israel: I haven't seen one but nobody is showing me all the permutations first. I'm also concerned about how exchange wagering can enable you to finagle. I mean, you're betting on horses to lose. If you're betting on horses to lose, all you've got to do is finish second and you win, and you can do it up to the last furlong. I mean, the security and the integrity of the game needs to be assured before I'm willing to accept exchange wagering as a viable concept.

Mr. Jay Privman: Joe, as a racetrack operator, do you see any model that works for Del Mar in order —

Mr. Joseph Harper: I think at this point we're confident that there's one out there, and to follow up on what David is saying, that's our number one priority, the integrity of the game and the security of the bets that are being made in a different fashion than we're used to. I think that's something that I know we've talked about with the TRA and the TRPB who have been very interested in all of those types of things and have done their homework pretty well on it so far.

So I think down the road we're going to see something that works and something that hopefully is secure and we can get on with trying to give something new and different to not just our own players that are around still, but to appeal to the guy that doesn't really care about racing but might be intrigued by these types of wagers, mainly online stuff.

And so I think there's a huge market out there for something like this, and so we're going to be aggressive with it, and we'll see if we can come up with the right formula.

Mr. Jay Privman: Norm, do you have an opinion on this?

Mr. Norman Towne: Well, I'm a Peter Drucker advocate. I think he said business has two functions, marketing and innovation, and I would put this kind of an effort in the innovation category. I think that Joe is right. It may attract a new customer which we're not very good at and I think the jury is still out. Oftentimes, what we call innovation is more of the same for the same customer. I mean, we take the same, as David says, amongst 25,000 people and we continuously change the product for them and not really to attract a new customer to the business, which is where we're woefully lacking.

Mr. David Israel: To that end, I joke all the time that the average age of our on-track customers is deceased, and the average age of our satellite customer is decomposed, but I'm hitting it on the nose. You walk into a racetrack, the people, its way too old. That demographic is way too old, and we have to make the on-track experience one that attracts younger people, one that's fun because people are not going to — nobody is going to go bet on their computer on something they haven't experienced first themselves, you know, firsthand at a racetrack.

Everybody has been to a football game, so everybody gets in the Super Bowl pool. Everybody has been to a basketball game. Everybody gets in the Final Four pool. But if you don't get younger people to come to the racetrack to experience the thrill of being there, and you don't sell it as an entertainment thing, which Del Mar by the way does an excellent job of selling it as a place to be, and as an entertainment experience. If you don't do that, nobody is going to turn on their computer and go to TVG or ExpressBet, because you turn on that computer and it looks like an algebra problem and everybody hates math class. And the TV screen if you put it on TVG is yet another calculus problem. Nobody wants to do that unless they first understand the experience of being there and what the thrill is. So if exchange wagering is going to work, you still have to get the people to go to the racetrack the first time for them to want to do the exchange wagering.

So it's an innovation issue, but it's a marketing issue first.

Mr. Jay Privman: Right, well, let's talk about it now specific to California, going forward. How do you bring in new customers? We've got obviously great facilities in both Northern and Southern California and in Northern California there's an extremely popular fair circuit in the summer. We still have wonderful horses coming out of the state. I mean, this year, for instance you're going to have both three-year-old champions, Blind Luck and Looking at Lucky were based in California and, of course, Zenyatta who is one of the top candidates for Horse of the Year.

So there is certainly stuff to grow on, but now and looking forward, and with the challenges going into 2011, I mean, a lot of the things that you're saying I'm sure everybody agrees with, but let's be honest, David, people have been saying for 15 or 20 years. So what can we do that's new?

Mr. David Israel: What can we do that's new? Well, I don't know that this hasn't been done before, but I'd hire kids at the universities, at UCLA, USC and send buses there every Saturday and Sunday and bring students.

Male Voice: Kidnap them?

Mr. David Israel: Yeah, well, just convince them to come. Set up rooms where they can watch the USC football game while they're at the track doing, you know, having fun at the

track. Or they can watch a UCLA basketball game while they're at the track, and they have fun at the track.

I mean, if you can bring 500 students and because they're college students they're all going to have disposable income. They're all probably going to get pretty good jobs. They're your customers in 20 years from now, and they're all going to have some leisure time. Start bringing them so they experience it. Fraternity parties shouldn't be at some saloon or shouldn't be at the fraternity house. Bring it to the track. You can do all those things.

Now, if they're under 21, they can't drink, but they probably have friends who are 21.

[Laughter]

Mr. Joseph Harper: I never drank at college.

Mr. David Israel: That's because you didn't go to college.

Mr. Joseph Harper: No, I went to a lot of them but they kept throwing me out of them, but I like your idea about the Patty Hearst bus, you know, throw them in. No problem, that's good.

Mr. David Israel: You have, you pay kids to market it at school. You know, send a bus, free admission, and then you see what happens. You've got to start doing different things. You've got to reach out in different ways.

Mr. Joseph Harper: We did that at Del Mar. A number of years ago we had a handicapping contest between San Diego State and UC-San Diego, and so those kinds of things are good where you get a little competition going between the colleges in your town, and things like that, and that worked well for a while, but you know, unfortunately, we've just got the hardcore sicko students that were there. They didn't bring all their friends with them, but I had to work on that one.

Mr. David Israel: We turn it into a party. I mean, that's the thing.

Mr. Jay Privman: Joe, let me follow up with you. I mean, obviously, Del Mar is lauded for their marketing every summer. I mean, even this year in a difficult economic situation the attendance was terrific, one of the reasons that we were downsizing the previous year, 2009 to the five-day-a-week racing, so this is sort of a two-fold question to follow up on what David said. What are some of the market things that you think racing in California needs to do to keep and/or grow it's customer bases, and then to dovetail from that, what do you envision the calendar looking like, not only for Del Mar but maybe for the entire state in terms of racing dates and how will that go, going forward?

Mr. Joseph Harper: Well, I mean, we've been successful at Del Mar. I think primarily it's because we started marketing something other than our product. Years ago, we did some market surveying, and we went to the non-patron. We asked them, "Did you ever come to the racetrack?" No. So then we went after that "non-patron," I called them.

"Why didn't you?" And the hardest thing to understand about their answers was that they had no reason why they didn't come. "Oh, yeah, we like Del Mar. It's cool. I hear it's neat. We just don't get around to it."

You know, how you market with that one. We went into an advertising campaign, you know, "Make hay while the sun shines." You've got to get out there right away, but the fact is that you have to market around your product.

You know, Craig Dado was here and can explain it a lot better than I can, but we tried to just figure out how can we put things out there for the people who don't give a rat's ass about racing, and that was certainly the majority of the people.

San Diego is a great market area because it's small enough to be noticed and big enough to support you. So when Del Mar comes around, we get noticed. The opening day is now the biggest event in San Diego every year, guarantee it, and that happens really because over the years, thanks to Craig and his staff, they've built up this type of party atmosphere.

We brought in concerts. We brought in all kinds of things, crazy hat contests and cougar contests, yeah.

I wasn't one of the judges, but I will be next year because last year wasn't too good. Well, the winner was fine, okay, but number three was a nightmare. You know, okay, so we had this first one we did two years ago, and I mean one of our marketing guys who was obviously considerably younger than I am came in when we had the overnight stake named after Cougar. Cougar the Second, and for those of you under the age of 75, that was a horse.

So he said, "Hey boss, I saw this race, and we named it Cougar," and I can see where he was going with it, and I said, "Terrific idea. Just run with it. Don't tell me and for god's sake, don't tell my wife about it."

And so we put this thing together, the guys did. We have two really good-looking guys in Marketing, and we used them to go get cougars. We just tie a rope around them, throw them into a bar, pull them out and they were stuck to them.

Mr. Jay Privman: So basically the marketing lesson to be learned here is, throw young guys into bars where 50-year-old women are and you're good to go.

Mr. Joseph Harper: It worked like a charm. After the contest, the first — the next morning after the contest, on the front page of *The San Diego Union*, and not the sport's section, but the front page had a picture of Miss Cougar with me looking down her dress.

[Laughter]

Mr. Jay Privman: That went over well with your wife?

Mr. Joseph Harper: Oh, yeah, she loved it, but I'm just saying those kinds of goofy things work. They work for us. You know, I don't know if they work for everybody but in the market we're in, it's happening. Its crazy Del Mar, what are they going to do next? That kind of thing, you know, a hat contest, bouncing balls between races with the kids on them, cougar contest, reggae concerts. Those have been big, but we're marketing all around our product, you know.

Mr. Jay Privman: David, I want to follow up with you on this. You've opined at several horse racing board meetings on racing being, in your opinion, it should be more entertainment than it is betting, but I mean why can't it be both? Why can't it be entertainment for new people, but why can't you maintain a business model that works so

that the bettors are getting a shake where, compared to other forms of sports betting, it's at least still something that's equitable. I'm not saying it's ever going to be 4.5 percent like a football bet.

Mr. Norman Towne: If the competition is casinos, it's that you can't win. If you're just going for someone who only wants a game of chance, you're going to get a better deal at a craps table or a card table. Dice don't eat, and cards don't go to the bathroom, and you don't have to clean up after them. So it's a lot different business model, but this isn't a game of chance. This is a game of skill for the hardcore horse player, not gambler. I mean, there are horse players and there are gamblers. It's a different business.

Now, I believe sports betting should be legal. From the day I joined the Board I said we should make an effort to get the 1992 federal law overturned and that the sports books should be at the racetrack and the existing satellite facilities so that people in neighborhoods can't go, "Oh, my god, they're introducing gambling into my neighborhood," and build great — if you build a great sports book at Santa Anita, I mean a 25,000 or 50,000 square foot sports book that exceeds everything that you can find at the biggest and best ESPN zone, or at Caesar's or at any of the good casinos, you'll get (every Saturday and Sunday) 5,000 men and women who are demographic strike zones.

Mr. Jay Privman: Let me stop you for one second. Is there any chance, Norm, of that ever happening in California? I mean, that obviously would take legislation.

Mr. Norman Towne: I wouldn't say never, but it's — I'd put it in the same one percent category that Joe put it in.

Mr. David Israel: Jay, you have to overturn the federal law, that's the problem.

Mr. Jay Privman: Okay, but let's deal with like more reality than "pie in the sky." Back to what I was asking you, what can racing do? What can the horse racing board, whose mandate is not only to regulate but to promote the sport, what can it do, not only to help market the sport and bring fans in but, as I was saying before, to not disenfranchise bettors and specifically, obviously, to California? You're on the Board. What is your mandate?

Mr. David Israel: I don't think that we're doing anything to disenfranchise bettors although, I suppose people will say the increase in the takeout on the exotic bets may do that, except that we're still — our pricing is still competitive with virtually every other jurisdiction. And so we're within some margin of error there. You're not going to get a better shake in most places, and as Joe said earlier, one place is show betting which is the way to get the new customers, you know, somebody who is going to make a \$2 or \$5 bet, and that's even more competitive. Our prices are lower than everybody else's.

Our sport is the only major sport, if it's still a major sport, in which women compete on equal terms with men. The trainers, a woman and a man. You don't have baseball managers that are women. You don't have football coaches who are women. Jockeys, men and women, although there's a paucity right now in the Southern California jockey colony of women, but women compete equally with men, and the horses are obviously both male and female.

We basically do nothing that I can see to get that message across.

Mr. Jay Privman: Other than the cougar contest.

Mr. Joseph Harper: Well, we tried.

Mr. David Israel: That's a different kind of contest. Actually, if you had the reverse-cougar contest, you'd probably get some women to come out.

Mr. Jay Privman: But again, I'm trying to get you on point here. What can racing do to grow the business and also to keep the bettors here, other than — do you think that's it, just sort of more women?

Mr. David Israel: Reach out to women. Get younger. The only way to grow the business is to get younger people interested so that you have customers coming in as other customers are dying off, and I think we have to accept that if we're going to run it in the middle of the week, we've got to run at night, because running during the day you're opening yourself — and I'm talking about thoroughbred racing. If you run — you know, there's a reason why baseball, basketball and hockey all play their midweek games at night. If you're running during the day, the only people you can get are either retired or unemployed. We're talking about there is not a lot of disposable income available there. And also you're not getting your demographic younger.

Hollywood Park, last summer, ran on a Thursday night and drew 10,000 or 11,000 people, is that right, Jack? You know, it was one of their biggest crowds of that season. They ran some of the Oak Tree meet on Thursday night, and actually they did better than they would have done Thursday during the day, even though they had some bad weather.

So, you know, and you have to get people accustomed to, "Hey, this is an entertainment opportunity on a Thursday night and a Friday night. Let's go to the track," because Thursday nights have become, especially in Los Angeles, which I can speak to more directly, they're big nights in bars and restaurants. And so people are going out on Thursday night, and you can expand the base that way, and another part of the problem I think is the HRTV and TVG schism.

If you turn on your TV set, racing is only available on one or the other. If you have one kind of satellite provider, you get HRTV. If you have another kind of satellite provider, you get TVG. If you have cable, some cable carriers have TVG, and so you're not hitting critical mass with any of them, and all their business model is, is to push you to bet on the race, and so they're not attracting new customers.

Mr. Jay Privman: I just want to make one point on that. I've always felt that it's sort of like, well, we're on two channels, where that's a problem with TVG and HRTV, and people sort of lament that.

I mean, pro football was on CBS, it's on FOX, it's on ESPN, and it's on NBC, and people don't seem to have a problem finding it.

Mr. David Israel: Because they're available on every platform. HRTV and TVG are not available on the same platform. In other words, if you have Direct TV, you can't get FOX and NBC. By law, you get all of your local TV stations and you get ESPN because it's part of the basic package.

TVG and HRTV are a part of nobody's basic package as far as I know, except for maybe Direct TV Sports, and carrying TVG, and because they don't carry competing tracks, you wind up at certain times of the year where stuff like that — because their whole job if they're on the air is to move people to their computer to make a bet, or to pick up their

phone and make a bet. There's an equivalency between Suffolk Downs and Saratoga, which is crazy.

Mr. Jay Privman: Well, let's try and stick to the California model here. Norm, I wanted you to jump in here. I mean, just from your vantage point, I wanted to just come this way on this with each of you opining on this. What do you think can, or needs, to be done in Sacramento, over the next couple of years to just, as a core situation, grow the business and to make legislators and others there understand what a huge agricultural business this is? Because the tentacles, and David alluded to this earlier, certainly are very far-reaching. It's not just the racetrack. There's the breeding industry and we've seen, for instance, River Edge Farm owned by Marty Wygod is wrapping up and moving their stallions to other farms.

Again, going forward, what can be done to turn things back the other direction?

Mr. Norman Towne: Well, first of all, I think in Sacramento we've done a pretty good job in that. I think that the legislators that have been around, and granted we have to re-educate every two years because in term limits we have new people coming in, but I think those that have been around do understand it. If they sat up here right now, they'd be just like we are. There are people smarter than the three of us, with all due respect to my panelists, that are the marketing experts that we aren't.

They have the marketing expertise that we don't have. I think that Joe and Craig Dado down at Del Mar do a great job of market penetration in their marketplace, but they don't just market horse racing, as Joe said.

I mean, if we're marketing Coca-Cola, it's a hell of a lot easier than marketing oleum percomorphum believe me, and racing has that problem. I mean, if you don't believe it, California in 1990 bet \$2.9 billion dollars within the confines of the state of California. Residents betting on on-track, off-track and inter-track wagering. There was no account wagering.

Last year, with account wagering, we bet \$1.9 billion, roughly a third, we've lost a third of our handle. And the population in 1990 was 29 million and today it's 37 million.

Mr. Jay Privman: So can that be reversed?

Mr. Norman Towne: We're not penetrating the marketplace. Now that hasn't happened at Del Mar, but those racetracks that are relying on handle alone, and are not getting the ancillary revenues from admission, parking, food and beverage, and any other ancillary revenues that we can generate from sponsorships or whatever, are not going to survive, quite frankly.

So they have to get back to penetrating the marketplace. I don't think you're ever going to have to take up a collection for California horse racing because we have one thing that no other state has. We've got weather. We've got population. We have 37.5 million people and growing. The next closest state is Texas, at 24 million and New York at 19 million, but I would argue that New York, at least, does a better job of penetrating the marketplace than California does, with some exceptions like Del Mar.

And so, my advice would be look, we can't ask David Israel and Norm Towne and Joe Harper to be the geniuses. We have to go out and find marketing experts and try to market this product and any other part of our operation that can be considered entertainment, or create it there, in order to get more people in the seats because if we lose those ancillary

revenues, which most tracks have done, you're struggling, because as David said earlier, if you're up against casino gambling, there's no cerebral challenge there. People go in, they throw money in a slot machine, they get a free drink, if they win, fine.

At the racetrack, you're cerebrally challenged while you're losing your money and most people don't like that aspect of the business.

Mr. David Israel: To that end, our competition isn't just other gambling entities. We're competing with the Dodgers, the Lakers, USC Football, San Diego State, the Giants, the A's and the Warriors for the sporting entertainment dollar, and we need — I think, to answer a question Jay asked, we need to sell it better, that this is an entertainment experience. You can bring the whole family.

Obviously, the kids can't bet, but everybody — there's a parade every 30 minutes. There's a guy playing music. There's colorful costumes. All of this stuff happens all the time. It's just you can go out in the paddock. You can see animals. I mean, there are a variety of experiences you can have in three hours at the track. It's not very expensive compared to the cost of taking a family to a ballgame, and oh by the way, there's a pretty good chance you're going to leave with more money than you showed up with, in that 80 cents of every dollar gets returned to the gambler.

So if you can go home with more than you came with, and still have that experience. Life is a series of experiences. It's not necessarily accumulating the money. It's those good experiences that will get people more interested. It's important to drive people to the track, and ADW has obviously been where there's a lot of the gambling growth, most of the growth in gambling in the last 10-12 years, and it's been important. But it's also been detrimental because it's enabled people to stay home and not come to the track. You know, anybody who has been in the life sports business understands the importance of ancillary revenue.

A long, long time ago, I was a partner in a minor league baseball team in Utica, New York, and I didn't know anything. I just did it with some friends because it was a fun thing to do, and I found out how much money we could make on "quarter beer night," and it was a revelation, "quarter beer night," you know, so — I mean how much money you make on an \$8 beer and I'm on the LA Coliseum Commission is monumental. It costs a buck to serve, all in. So your profit is 700 percent, and we need to drive people to the track in order to drive that revenue up and not settle for increasing the market on ADW.

Mr. Joseph Harper: I think when you do that, and Del Mar is probably a pretty good example of it because that's what we've tried to do. I mean, our revenues on our on-track revenues, gambling is not the highest. It's like Vegas, you know? I mean, from — I'll tell you, opening day, which is a hell of a day, and 43,000 people, and do you want to take a guess at our food and beverage sales? At 1.3 million, 1.3 million. Okay, so a Del Margarita is \$15, you get the glass, okay?

[Laughter]

We had Ziggy Marley, reggae come to Del Mar, a million bucks, food and beverage.
[voicing over/laughter over mixed commentary about the reggae concert and marijuana smoking]

Ziggy Marley was there about three years ago, and we really do a lot to stop that, honest, and now. Then, we weren't right on top of it, so to speak, but Mike Smith, your Big Sport of

Turfdom Award winner and I were standing next to the bandstand when Ziggy started playing.

We were at kind of a VIP area. There was a fence there and you couldn't really see the crowd, but what you could see was this cloud, and Mike goes, "What's that?"

When the wind was blowing it was descending on us, and I said, "Mike, by any chance are you getting tested tomorrow?"

He goes, "No, what are you talking about?"

Well, I guarantee you within half-an-hour we were writing poetry and I was *[laughed over]*.

I just made all that up!

Mr. Jay Privman: I just wanted to follow up. We have about five more minutes, and then I want to open it up for questions from the floor. For you, Joe, I mean, I want to get everybody's opinion here on what's going to happen to the calendar of California racing, but one other thing, and this is sort of a two-fold question to you. Would you like to see Del Mar have more racing days and to what point would that be? And also, if you don't mind answering, what is the situation really with Del Mar right now? We've talked about revenues and the state being broke and that's sort of been something that's come up.

Mr. Joseph Harper: I'll be brief. One, is yes we want more racing days, and it's really dependent on my friend here to the right and what Hollywood Park is going to do as well. Assuming they do what they say, they're going to develop better and do something else, and I think the most important thing we need to do in California is figure out what the year-round calendar looks like because there is basically going to be Golden Gate, Santa Anita and Del Mar.

You figure on the balance and what works, and I think the horsemen are going to be a tremendous help in that and what we're going to have to figure out, is Del Mar better off with a fall meet, two meets, a bigger meet? The summer meet, I think is just right the way it is. It works great, and I hate to mess with it, you know? Maybe there is some leeway on both ends, and there's probably something in there for a fall meet.

So yes we do want more racing days, and I think it would be more profitable. I don't think that we'd do as well on a day-to-day basis as we do in the summer, but we'd do very well.

Now, the Del Mar situation as it stands right now, the state of California, the governor wants to sell as many properties as he could, or can. Every governor since Earl Warren, I think, has always taken a look at what's out there to sell, and how much property the state does own, and it's significant.

So Arnold got really gung-ho to sell it, and the fairgrounds, and went with it. The City of Del Mar, and there's like 5,000 of us that live in the City, if that, became very interested when that came about. Del Mar and the Fair Board don't really get along.

A little quick story, when I got to Del Mar in 1977 I was told that the relationship between the city and the track were horrible, so I called the Mayor of Del Mar up. I had never met him, but I did own a house there at the time, and I said, "Well, why don't you and I get together and we'll talk about what needs to be done?"

He said, "Well, you know, pick a restaurant and we'll have breakfast, but I don't wear shoes."

I said, "Okay, no problem."

Well, it was 1977 and the entire council in Del Mar were professors from UCSD down the road. None of them owned property in Del Mar. They rented houses and they all got on — it was just the end of the hippie deal, and they didn't want it.

So I had breakfast with this guy. I said, "Look, I'm the new kid on the block," and I can make friends with anybody, and I said, "what can we do?"

His suggestion was to burn the bridge between the track and the City so that the scum at our racetrack wouldn't come over to the City.

I thought, "This is going to take awhile."

Well, 33 years later, but I think the city of Del Mar wants local control of that because they don't — I mean, it's State-owned property, so they don't have to conform to any rules, regulations or environmental things, well some environmental things, that the city has.

So when that happened, they didn't have the money, so Mike Pegram and a couple of your guys here in Tucson, Paul Weitman and Karl Watson, decided well maybe we can help the city out and that way we could ensure that nobody strange buys it, and that we can control the management.

So the Fair Board, that's appointed by the governor, was very opposed to selling it even if the guy that appointed him wanted to sell it, so it's now gotten down to a pretty good dog and cat fight between the city and the Fair Board, and the Del Mar Thoroughbred Club is doing their best to stay out of it.

Jay Hovdey called me one day and said, "You know what's going on," and I said, "I don't," and he said, "That's total bullshit, Harper, what's going on," and I said, "Look, I'm like Mongo in 'Blazing Saddles' when he said, 'Mongo just a pawn in the game of life,'" and Mongo is just the pawn here. I know nothing.

I don't know what's going to happen. In order for it to happen, though, I will tell you that you need enabling legislation. You need to work out the fact that you have to pay \$45 million in bonds back to the state, and somehow reach some kind of economic relationship between the investors and the city of Del Mar, as well as coming up with some kind of management contract that would work. So there are a lot of hoops to go through.

Mr. Jay Privman: And, Norm, just for you to quickly follow up on this. As Joe was saying, there are a lot of hoops to go through. Do you think those hoops are going to be gone through, or are they going to try to go through the ring of fire and get burned?

Mr. Norman Towne: It's a tough call. I think it's obviously going to go on, not just at Del Mar, but at other state properties. I think that we have had a new change in the administration, of course, Jerry Brown, and we're going back to the future, our governor in the late 70s and now our governor again.

As David had indicated earlier, we have a budget deficit which he pegged yesterday at \$28.1 billion and so there are a lot of distractions and brushfires that they're really not going to want to deal with. This may be one of those.

Senator Kehoe, who is running the bill to implement the sale of the Del Mar property, will be pushing hard. There's also the sale of the Orange County Fairground which has taken place, and that needs enabling legislation. That bill is up there. There's a competing bill against that.

I imagine, within the confines of the legislature, there's going to be a great battle. Whether or not anybody takes ownership in the administration of these building sales ideas, which in the Schwarzenegger administration he pushed hard for these — in fact, there were \$11.2 billion of buildings that were not fairgrounds, but state properties that he had for sale, and there's a court challenge for that.

So I don't know whether the new governor is going to want to get into that ballgame or not get into that ballgame. I think a signal from the administration would go a long way to perhaps putting this to rest for at least a time. My guess is that may happen. We may actually have somebody within the administration take ownership of this and say, "Look, stop. We're not selling properties right now."

Mr. David Israel: Although the Del Mar property is easier to get done than the others because it's being sold to another government entity, whereas the deal proposed in Orange County and the deal proposed to buy the coliseum property which became public yesterday, are private entities. So they may have to be subject to an open bidding process because it will no longer be public property. But Del Mar is public property. It's just a different government.

Mr. Jay Privman: David, just briefly because I do want to open it up for questions. Briefly, Joe was mentioning wanting to get dates. What has the racing board done to look in to the future regarding contingency plans for the eventuality of Hollywood Park, whenever it is, whether it's three years from now, ten years from now, whatever it's going to end up being. When it does go away, what has the racing board done to look at potential calendars?

Mr. David Israel: All of us individually I'm sure have thought about it. I know Keith Brackpool and I have discussed it. We'd love to be able to put ourselves in a position where we can do a five-year calendar and that five-year calendar, as Joe indicated, would include Golden Gate, up north, and the fairs, and then some division between Santa Anita and Del Mar.

I have an idea of what I think makes sense, and I think looking at Del Mar in November and April, in addition to their summer, makes a lot of sense. I also think, given the declining horse population and the fact that the industry just needs rest at times, look at taking two weeks off here and there so maybe we have a 46- or a 48-week calendar instead of a 52-week calendar. I think that would make a lot of sense.

Mr. Jay Privman: We do have a few minutes for questions. There are microphones on either aisle. When you do come up, and I hope there are some people that want to have questions, just please identify yourself. I also wanted to mention that, besides these three gentlemen who are here today, the University of Arizona did reach out to the members of the California Thoroughbred Trainers, to Frank Stronach and to the Thoroughbred Owners of California and they all either declined or did not respond. So that's why these three are

here as opposed to maybe even being more people. So if you're wondering why an owner's group, or a trainer's group or someone from Santa Anita/Magna Entertainment wasn't here, that is your answer.

Mr. Joseph Harper: Are you trying to say this was the only guys you could find?

[Laughter]

Mr. Jay Privman: We're trying to say, thank you for stepping up and not dodging the slings and arrows. Anybody with questions? Please. You're all so satisfied that we asked everything you wanted to know. Yes, sir?

Mr. Ed DeRosa: I'm Ed DeRosa, from *Thoroughbred Times*. Mr. Israel, I know you were fairly critical when MI Developments came before the board on a couple of occasions this year. Jay mentioned Magna. What do you see as MI developments effect on California racing? How do you see Frank Stronach's involvement in California racing? How do you think that it's affected the state, and how do you expect them to be a partner in going forward?

Mr. David Israel: Golden Gate and Santa Anita, obviously, are very central to the success of racing in California, and they've emerged from bankruptcy. They've reorganized and so far they've refocused on their assets. I think installing the new track at Santa Anita is a great step in the right direction, and I hope it's an indication of more good things to come. You know, I can't — it doesn't matter what happened in the past, to be perfectly honest. You can't change that, so I'm only concerned about what's going to happen in going forward, and so far I'm encouraged by what's happened.

Now, as Frank Stronach knows, and many of the people that work at MI know, we've asked him, as a show of good faith, to send horses here to run at Santa Anita this weekend. Frank has a substantial stable, and I think it's important, and he said he would. So I think it's important that he maintain that commitment and just a small string. Most of his horses are located back east, but he has a dirt track here now. He likes dirt tracks and he wants to run, and I think it would be really important for him to send some horses out here.

Mr. Sean Pierce: My name is Sean Pierce, I'm the newly elected Secretary Treasurer of Local 280, the Pari-mutuel Employees Guild of California. Mr. Harper, I think Harper, I think he just called you Cougar #3. I think Jay called you Cougar #3 there when he knew who was going to be here.

When you talk about taking breaks, everybody needs a break. The horses need a break. The bettors need a break, but there a lot of people employed in the industry that can't afford to take the breaks, not just members of our union but all the people in the concessions, the jockeys, the grooms and you know they have to keep paying everybody. We want that taken into consideration as well if we talk about breaks in the schedule.

Mr. David Israel: Don't blame, Joe. I'm the one who said that.

Mr. Sean Pierce: I'm not blaming Joe, I'm blaming you.

[Laughter]

Mr. Joseph Harper: You can blame me. To your question or to your statement, you know, when we went from six days a week to five days a week, our payroll took — you

know, it was obviously something like \$2 million dollars out of it. That's \$2 million that didn't go to a lot of your union guys. I mean, I'd like to thank 280 because you understood the situation that we were in, and I think you understand the situation this country is in.

You see unemployment figures that are in the news every day, and I'm always interested as to what percentage of those unemployment rates are the fact that businesses learn to cope better, and run leaner and still make more money.

I mean, we didn't fire anybody. We just didn't hire them six days a week. We hired them five days a week. So obviously, we'd owe them less money. That was something that we had no choice. I mean, we knew if we'd run a leaner ship we'd stay in the profit business, which we have to do in order to pay back all those bonds, and it turned out that — of course, after we made the decision we thought, "Oh, yeah, and that's no horses."

I mean there are a lot of tracks out there that are hanging on to four days a week, and so I think that we're all in the same boat. I will tell you, management has taken the same cut, and so it's an overall thing. It's going to happen more often, I think, and not just in racing but everywhere else.

Mr. Jay Privman: Any others? I don't see anybody else standing up. Are you coming down? Yes, go ahead please.

Mr. Lucky Kalanges: Lucky Kalanges from TwinSpires.com. Approaching the game from the fan perspective, or bettor, and I got my start in racing by going down to Hollywood Park on "dollar Friday nights." I was probably one of the few that were actually converted into a horseplayer from that experience, and eventually I got a job in the industry.

I think my biggest concern is, in this environment, how do you improve the betting product because I've seen it over the year's just get worse and worse. In Southern California, in general, where the cards are all back-stacked, the biggest fields are always in races five through eight. I have no reason to go to the race until race five, and now it's a lot harder because I'm no longer single, and I don't have much time to go to the track, but a compelling betting product is just one of the biggest reasons that I would go to the racetracks. So I would ask the panel.

Mr. David Israel: So do you want to know how we increase fields?

Mr. Lucky Kalanges: Yeah, how do you improve the betting process?

Mr. David Israel: The point of the increase in takeout is to increase overnight purses, and the overnight purses are generally those races that you described as being insubstantial from your point of view. So if we can increase fields, they'll be more reason for you to come out. And one of the reasons that the last four races are back-loaded all the time is because the "pick six" is such an essential part. It's the signature of California racing, especially Southern California Racing, and so in order to make the "pick six" enticing, and exciting and to keep everybody wondering, you want to have larger fields, obviously, in those last races.

But increasing the purse, I mean, an example of a purse increase, and Mark Thurman and other people are here, and correct me. This week and last week at Hollywood, I think a first conditional allowance race was \$40,000 and in three weeks at Santa Anita, a first condition allowance race is going to be \$56,000. Well, that's a quantum change.

That's a big difference, and that's going to register with horsemen from back east so I'm hoping that. Mike Harlow and Rick Hammerle and the people from Santa Anita are attracting owners and trainers from especially the colder states back east to come out here because these purses are going to be so enticing for them. That should then benefit the player and make the experience more edifying for you.

Mr. Lucky Kalanges: Do you feel that, by taking more money out of the winners' pockets, do you expect to see any decline in —

Mr. David Israel: Well, there will either be a commensurate increase in the payouts because with larger fields you're going to have higher odds and better payoffs. I think there's a calculus here that works.

Mr. Jay Privman: There could be an argument made, though, and I hope you don't mind me following up on where you're going with this, but there's sort of an insidious nature with that in terms of churn.

Mr. David Israel: Yes, I understand that. Look, this isn't necessarily forever. We're going to track this and see how effective it is. It's got to be effective for the horsemen and effective to the racetracks and effective to the players, but there's a belief that this will benefit everybody. This is one little micro economy in which trickle down economics, which has been an abysmal failure whenever it's been imposed in a macro economic way, but trickle down economics might actually work here in this little micro economy. At least that's the thought, and that's what we're all hoping happens here in California.

Mr. Norman Towne: Joe hit it right on the head. I mean, that's our biggest problem. I just hope that what we're doing will help the situation, but I think what we're doing is just going to keep us treading water for as long as we can because until we start breeding more horses, they're just not going to be.

Look at Bob Evans' keynote speech on Tuesday. I mean, he basically said you're going to end up with half the tracks running half the number of horses, and that's basically what's going to happen.

Mr. David Israel: But also, I mean, we have a different situation that's a little more onerous for California because we don't have nearby racetracks where it's easy to ship in from. If you're in New York or New Jersey, people can ship in from Pennsylvania, Maryland and the visa versa, Kentucky, Louisiana, and Florida. They're all relatively close together.

Mr. Joseph Harper: A lot of those tracks are subsidized purses.

Mr. David Israel: Right, but here, you know, its hundreds if not thousands of miles, to ship horses. You can't ship in for a day unless it's a big stakes race. It doesn't make economic sense, so we're hoping these purses have increased enough to warrant people shipping strings of horses in with trainers. We have stable space for them, and we're going to write races for them.

Mr. Jay Privman: I want to thank everybody for attending this panel. I especially want to thank Joe Harper, David Israel and Norm Towne for honest and forthright answers and covering, obviously, a breadth of topics. Thank you for being here this morning. There's another panel coming up in 15 minutes. Thank you for attending.

[Applause]