



TUESDAY, DECEMBER 6, 2005

ABC'S OF STARTING UP

Sponsors:

Panel Session: Scientific Games Corporation

Refreshment Break: Churchill Downs

Speakers:

Tom Manning, Director of Marketing, Sales and PR; Prairie Meadows Racetrack and Casino

Greg Saunders, Executive Director and Chief Information Officer; New Mexico Gaming Control Board

Bruce Wentworth, General Manager; Dubuque Greyhound Park & Casino

MR. STEVE RITTVO: Good morning. I'm Steve Rittvo, and I'm the president of The Innovation Group, and we're real happy and proud to be content providers to the Symposium on Racing program put on by the University of Arizona.

I guess just in sort of a small introduction, we are really proud to be able to be a participant in this program in a major way. We started attending this program probably about six or seven years ago, and I don't think there is enough I can say about the university program.

This year for the first time we actually took one of their students as an intern over the summer. And if you have not had the pleasure of the experience of doing that, besides being great inexpensive labor, we found that the students were incredibly knowledgeable, incredibly, incredibly supportive and enthusiastic in what they were doing.

And I think the University program really needs to be proud of the quality of their graduates. I guess for us, having as a first time experience, first time hands-on experience, it truly was just amazing.

With that I would like to start this morning's session. It's the "ABC's of Starting Up." Sort of really an overview of how you start gaming operations or start expansions of gaming operations within racing facilities.

The three panelists we have this morning really represent the broad range of experience and background within the racino industry. And I think we've structured this program to be able to give you a very strong map or blueprint of how one starts up both from an operational and from a regulatory environment.

The first speaker this morning, Bruce Wentworth, has 35 years experience in the gaming industry. And I guess, Bruce, this must be the most close to a homecoming. He started out as a pari-mutuel clerk within Arizona in 1970.

So again, I started thinking that 35 years was a long time in being in this industry, and I realize I've been in this business for 36 years, so you're a youngster. Just think, Bruce has been in this industry which led to a position first as assistant general manager to Dubuque Greyhound Racing Park in 1985, in 1989 he became a general manager, and a casino with 600 slot machines was added to the plant in 1995, a Memorial Day weekend of 2005, a 30,000 square-foot state-of-the-art facility, casino opened with a thousand machines and the facility will be adding tables games in March of 2006.

So what we're really looking at is a facility that has a start-up, has had another start-up and expansion and a third startup that's really going to be coming on line in the spring of next year.

Our second speaker is Tom Manning, who's the director of sales and marketing at Prairie Meadows, again another Iowa facility, Prairie Meadows Racetrack and Casino in Altoona, Iowa in 1995. Prairie Meadows became one of the nation's first racinos, introducing 1,100 slot machines within the racetrack enclosure.

They're now operating 1,500 slot machines and soon will increase to 2,000 as part of a \$60 million expansion. Prairie Meadows has added a total of 40 table games and a full range of pit games and poker in December of 2004, so again, we're doing something where we have the ability to talk about a facility that has started, been in one level, expanded and now is expanding into another level.

Tom is also, beyond his position in sales and general marketing, is responsible for sort of some non-traditional marketing functions, public relations, entertainment, television inbound and outbound and the pari-mutuel operations.

In addition to just getting facilities open, we need to make sure that they are regulated and the start-up on regulation particularly as we change and expand the facilities, something that really has a very large impact on operations.

Greg Saunders serves as an executive director and chief information officer of the New Mexico Gaming Commission. You've had, Greg, tremendous training, I guess, coming from — you know, prior to being on the board of New Mexico, he was responsible for information technology for the New Mexico Children's Youth and Family Department.

Going from youth and families to racing is probably as unique as me going from traffic engineering to casinos. I've got to give you a lot of credit for making that transition.

The New Mexico program is one that has really been considered a model at this point for control and regulatory activities, and Bruce has been responsible for implementing a comprehensive regulatory system to electronically monitor and control state gaming activities; so again, a very state-of-the-art type activity center for a new start-up.

Greg holds a bachelor's degree in business and a master's degree in accounting, and really has been able to bring a broad perspective to what's been going on in New Mexico.

What I would like to do is ask Bruce if you could start first; and when you're finished I'm going to sit down. Tom, if you could come on when Bruce is finished and to bring up the end I will come back for questions and continued moderation. Thank you.

MR. BRUCE WENTWORTH: Good morning. Nice to be back in Tucson. I look forward to this every year. Twenty years ago I came from Tucson having worked at Tucson Greyhound Park, and from Tucson went to Dubuque, Iowa. And I don't think there's many of these 32 sessions that I have not attended, and have had the pleasure to speak a couple of times.

One memorable time I can recall back in 1990-91 we talked about the advent of riverboat gambling in Iowa and the Dubuque Racing Association's role with that. I think the title of that speech was something to the effect of, "Beat Them or Join Them," and I thought I was going to get beaten out of town when I was done with my presentation.

Fifteen years later, actually we're talking about racinos, and as part of the gaming experience. A little bit about where we are here. And a little bit about us. And I'll give you a little bit about what we're going to talk about, at least from my perspective. I'll give you a little bit of background about DGPC, and I'll go through something we call "seven steps." I'd like to emphasize that the seven steps I'm going to show you are not "The Seven Steps," they're just seven steps that I happened to scratch down on a piece of paper about a week ago when I got the call.

And then if we have time at the end we'll give you a little bit of a photo tour that will show you a little bit about what we're doing, and we'll have a little bit of that as we go through the presentation.

The project overview. We had a 47,000 square-foot addition, 30,000 feet of that designated for gaming, as mentioned before, going to a thousand and a lot of other renovated areas that we're looking at existing space, but the best way then to approach that.

The groundbreaking ceremony, and again looking at that picture I remember the things that we then took under our own wings to try to decide where to go next.

So I started with step one being feasibility. Certainly before you do anything you have to know where you're going and what's going to happen. You have to look at the existing market; what about that market, is it saturated? Is it constrained? In our case we felt it was.

How does it affect out competition? We have a riverboat about a mile and a half away from us. What's going to happen to them? What's going to happen us to together? Is it going to create a new, bigger pie? In our case it did. And in our case not only did it do that, it really didn't negatively affect the riverboat a mile and a half away as much as we thought it would; which is good news for them. The good news for the community is that we expanded our gaming market.

As far as the return on investment portion, there was some talk about tax rates earlier. Iowa went through a very contentious litigation having to do with two tax rates, one for boats and one for tracks. The tracks were facing increasing tax rates, went from 20 to 36 percent. We had that overturned and are now at a rate of 22 and 24 percent. That certainly played into our thinking as to whether or not to expand. And it didn't happen too long ago.

All of that leads to the next step, which is scope. Feasibility will lead to scope, and when you look at that, really you're asking yourself some of the questions Mr. Sultemeier asked with regard to his properties. Is it new space or existing space? In our case it was some of each.

We contracted with some architects to give us some ideas of what we might want to do and what we could do with some of that existing space. We looked at, where does the money come from? We're a not-for-profit corporation. Home office, our home office. There's no corporate structure other than that that exists in our building. We actually found two local banks that stepped up to the plate to share a \$25 million loan at very attractive rates.

The other question was: When you're doing this, what else can you expect? Well, fortunately for us what we ended up with was a group of local Dubuque investors that came to us and said, "We see what you're doing, we like what you're doing. How would you like a hotel?"

We said, "We'd really love a hotel."

And about a month ago Hilton Garden Inn opened adjacent to our property, with a Hoolihan's Restaurant, and that was another \$12 million worth of expansion that was done by a private group and a local group that we're very grateful for.

Just to give you an idea about what we're talking about, everything above the red line is existing, everything below the red line is new. The part that's below the red

line is a new casino with a thousand machines; the part that's above is a recontributed space.

That leads me to my version of step three. And when I started with the architects was the question of riverboat versus Bellagio. I know what I wanted, I wanted Bellagio. I know what I could afford and it was somewhere in between. It was something that we struggled with as far as what was the proper amount of money to spend.

And what we did, we allowed ourselves to dream at the beginning. We said: "Let's dream." And we dreamed a project that was larger, quite frankly, than the project that we have. But the amazing part was some of the ideas that we had at the beginning, some of the dreams made it to the end.

One of the things that we asked our customers about was, "If we're going to do this what do you want us to do?"

And we solicited their comments. And we found that they overwhelmingly had one suggestion that had to do with smoke. They hated it, the smokey atmosphere of the casino.

So that led us to design, which is step three. We talked about what are the unique parts of our facility. And we incorporated some geothermal things into it as a cost savings; an elevated floor system that you will see soon, and a state-of-the-art air filtration system with a cost tag of about \$2.1 million.

With regard to the elevated floor system, we rebuilt a computer floor, it's about 15 inches off the floor. Underneath space becomes a plenum for air and it also acts as a wire carrier for the harness that ties all the machines together. We had one of our analysts look at that. He told us we have 26 miles of data cable under that floor.

The air filtration system is a group of some big black-looking barrels that delivered the air, there are several of them on the floor. And the air oozes out from the floor and goes to a ceiling that's 20 feet high. As a result we actually were recognized as being a green building, a green building status, that I will get into in a little bit in more depth. I have copies of this article if anybody would care to look.

That leads us to step four, construction. Those things that really get in your way that you don't want to get in your way. How to minimize customer inconvenience. You do the best you can in the construction site while at the same time creating some sort of anticipation.

We built in a campaign called "Building Excitement," which led eventually, when we were finished, to something called "Experience Excitement."

We also certainly during the cost control phase of this quickly came to recognize that cost estimates are just cost estimates and that project schedules are project schedules, and they all have flux.

The project overview. We began in January 2004, due to a number of things as far as getting the temporary entrances going, and started with pile driving. Our sight is a unique sight. Twenty-some years ago before we were there this sight was a landfill. And 560 piles later we had enough foundation to build a building on top of it.

So there's some of the structure going up, and again looking at the next phase of the project, we have some steel going up, all the things that you need to do to get it enclosed. It's a steel structure with some native materials used, as you'll see in a minute. As you can see we did part of the project in winter, which was another challenge considering that yesterday morning when I left Dubuque, Iowa, it was seven below.

As we finished the interior then we looked again at this state-of-the-art air filtration and, which leads us to step five, from my point of view one that is certainly more than all the systems and equipment that you're going to be requiring.

We have an existing casino that we're going to turn literally into a new casino. The switching over process is not without its challenges. Requirements as far as maintaining a surveillance room in an old casino transitioning to a new surveillance room in a new casino; turning that key is not a simple feat. As long as all those things that you need to do come off without a hitch you're okay, but it takes a great, great deal of coordination.

The sixth step that occurred to me was, as we went through this process, please don't forget the regulators. Their job is to sign off on every little piece of that, and every little piece of that is important. You may be able to throw lots of manpower at a project, but if you have a limited manpower from your regulator you need to work with your regulator; you need to work with them in advance so that they know what's going around the corner so they can help you. In the meantime you have internal controls, procedures that you have to maintain.

Finally, the group that really was important to us was our employee group. You need the people involved. We held meetings with our employee groups, tried to give them information, even before we made it public, so that they have the inside scoop, so to speak; certainly hire and train those people in all you're going to need in advance, get them going.

One of the other things we did as far as giving the new look to the place was to say "Let's get a new attitude to the new look." We did something that we call "SMILE Training." SMILE an acronym standing for: "Service Makes Impressions that Last on Everyone." Anybody now on Fridays wears special SMILE attire, and they love it.

We also said, "You know, we spent millions and millions and millions of dollars on a project that really had to do with bricks and mortars and systems and equipment. Let's not forget the employees. Let's get them dressed up as well. Not only that, let's ask them how they feel about that."

So our employees actually helped in that selection process, and so they picked out what they wanted to wear and we bought them all new uniforms.

What comes next? Table games for us comes, as was mentioned, hopefully by March. Again, renovating unused space to get us a poker room, which everybody knows is popular, third most watched sports on television. And more banquet space that will look something like that. And that area is actually part of the old casino space. With a look that hopefully will invite people into that space; that much is not part of the casino itself, but we believe that it's in the right spot.

So with the couple of minutes that I have left we'll just take you on a quick little tour of what we looked like before. Somewhere along the line before it kind of went away, didn't it? Didn't look like anything before.

Well, on my sheet it looks like something.

Well, this is what it looked like after.

You can see the light portion of the roof being the new part of the facility. And a new entrance, a new invitation, we'll show you some of that. A new entryway that was about five times bigger than the old one.

You'll see the use of native limestone. We tried to recreate a little bit of a Frank Lloyd Wright prairie-style look to our building to reflect some of what's happening in Dubuque.

A look at what we look like when the sun goes down, some of the signage that we incorporated. "Rich Rewards" happens to be our players club, with all new signage. Lots less looks as far as neon tubes, lots more flat screen around the casino.

And this is our casino with a round bar in the middle, thousand machines.

Again, at dusk. Our entryway, we call it our Grand Rotunda, and I'm in a picture of our casino bar, our valet area; and thank you.

One word I would like to leave you with though is: Listen to the customers. When they talked to us about smoke, and when we spent \$2.1 million, we went out and had a third-party study done and the third-party study came back and said that the air that customers and patrons breathe is as good or better than in their nonsmoking offices or homes.

We're very proud of that. And we think that we accomplished that first goal. And our customers told us that we did as well. So thank you.

(Applause)

MR. TOM MANNING: Good morning. I'm going to talk a little bit about our table games expansion at Prairie Meadows. I think it's natural that there will be a little bit of redundancy concerning the considerations in looking back at Bruce's presentation, but probably a little bit more in the way of specifics.

Bruce's operation, Bruce's expansion is quite a bit more comprehensive than our table games expansion. As Bruce mentioned, there was a rather long and contentious process in the State of Iowa concerning the taxation rate for casinos and racetracks. It was ultimately resolved after three Supreme Court decisions, two in the State of Iowa and one by the United States Supreme Court.

In the State of Iowa, the United States Supreme Court decision was negative, but in this case Iowa had the last word.

Legislation was passed in April of 2004 allowing table games in racetrack enclosures. By July we had dotted the i's and crossed the t's and had regulatory approval to move ahead.

Started hiring the management staff. In our instance the senior staff was already on hand.

Both the casino operations director and I had previous experience in opening casinos at Harrah's so we didn't need to go to that level.

We did hire a table games manager and shift managers, moving on to hiring the supervisory staff in August and beginning training; began construction in late August but it didn't interrupt our operations or actually the grandstand area until after Labor Day.

The target date to open table games was December, but we recognized that that was an optimum, and we would have been happy if we had had it up and running in January. As it turned out we did open it in December.

Considerations. How many games was obviously one of the first things we needed to think about. In looking at it, it required a combination of assessing the market and taking a look at what we really had room for. What we ultimately ended up with was 24 pit games and nine poker tables.

How soon to start?

I think it's important to fight the temptation to rush into something of this nature. You want to get the revenue stream started as soon as possible; there's a pent-up demand in the market, but it's better to take a little bit of additional time for planning, a lot of additional time for purchasing, construction is obviously a necessity, and ultimately staffing.

Which games to provide?

We ended up with 21 blackjack-type tables, some of which were dedicated to carnival games, others to — most to blackjack. Two craps tables, one roulette table and nine poker tables in a nonsmoking poker room; which sounds kind of anathema to the game of poker but it has not presented any problems at all for us.

Casino design. Making it fit within existing space was certainly a consideration. In 1995 when we added slots, slots were shoehorned into virtually every nook and cranny of the racetrack. They were right behind the grandstand area. It really was not a very pleasant environment, and we resolved that we didn't want to let that happen again this time.

Other challenges that we had to meet were access for minors. In Iowa anyone under 21 is not permitted in any gaming area. In order to get people to the grandstand we had to create a rather elongated and a little bit convoluted path for them to reach the grandstand. It still wasn't the optimum, but it worked.

We also had to accommodate the fact that we were losing grandstand seating in that we created a table games area in part of a grandstand. And I think weekly meetings were essential in our process. All department heads, every detail that was going on was discussed on a weekly basis.

Management and employee issues.

Management.

I mentioned that the casino operations director and I both had previous experience at Harrah's. If you don't have that kind of experience on staff, it's essential that you hire it. Not only someone who has experience running a casino, but someone who has experience opening a casino. It's a totally different process.

Logistical issues.

One thing in particular that surprised us is in order to get a roulette wheel that was approved in the State of Iowa, the only vendor we could find was in France. Not something we were accustomed to, and frankly that surprised even those of us who had experience. Because when we were working at Harrah's, gosh, somebody else bought the stuff. Their central purchasing lined up everything and they got it to the location; all we had to do was put it in place and make it work.

Staffing of front-line employees. One of the considerations you've got to come up with: Do you hire new or experienced employees? In our instance we opted to go mostly new. Some experienced employees, but what we didn't want to have to do is untrain employees from some of the procedures that they may have learned in other casinos. That wasn't really the direction we wanted to go.

Licensing issues and turnover.

Licensing issues, this was particularly interesting, because the table games training process was anywhere from six to 16 weeks, depending on whether they were learning one game or multiple games. At the end of that process we had an inordinate number of trainees who failed to pass the physical, which in most cases was a euphemism for, they flunked the drug test.

So you would just think that after devoting that much of their life to learning the games that they would maybe have taken a week off prior to the test. But it just didn't happen.

Turnover. Our experience with turnover has been relatively low.

Issues to consider. Do you outsource training or do you develop your own curriculum? We developed our own because we wanted people to do it our way.

On-site or off-site training school. We opted for proximity but still off-site. PRO, single or multiple games? The tradeoff there is if they wanted a single game you can get them on the job more quickly. If they learn multiple games you have a lot more flexibility in your scheduling.

Paid or unpaid training. The way we handled training, they did not become employees until they completed their training, so obviously it was unpaid training. Unlike some other jurisdictions, however, we didn't charge them to go to school.

And internal transfers or expersonal hires. It's important. We had a lot of employees from other departments that wanted to become table games dealers. We achieved a balance without really upsetting any employees. What you don't want to have to do is cripple another department in order to staff your table games.

Synergy with racing. The location of our table games area overlooks the racetrack. And it was designed in such a way that when our expansion is completed and table games will move from that area, it should create a nice restaurant-type club overlooking the racetrack. So it will do double duty without a lot of remodeling.

Dealer uniforms.

Our dealer uniforms emulate jockey silks. Casino chips and playing cards, I understand kind of hard to see there, but the cards do have a horse head, which is part of our corporate logo.

Our first commemorative chips — commemorative chip, rather — was for Sure Shot Biscuit, who is as of this time the only Iowa-bred to have ever earned a million dollars. Not all of it was in Iowa.

We put the TV location in the games area. During live racing those TVs showed nothing but live racing. During simulcasting it's a combination of sports and simulcast tracks.

We tried roving tellers in the table games area. It was not very well received. The people are pretty focused on their games. They weren't interested in wagering.

The impact on handle has frankly not been significant in any direction. Overall our handle was flat to up very slightly on track. Among some of our more significant players the synergy actually tilted a little bit from live racing to table games. Because there is quite a crossover between table game players and horseplayers, to a much greater extent than was the case with slot players.

This is a look at our table games area. It was a difficult shot to take because of the different lighting. What I find kind of interesting about the shot is that, although it's not exactly Personal Ensign and Winning Colors, there is a rather stirring finish going on outside on the track, and not a single head is turned toward the track.

Start-up.

It's important to base projections on market realities. We had two casinos — we have two casinos in our general market area but both of them are around 50 miles or a little bit over 50 miles away. We're right in the middle of the primary population area in Iowa, so frankly we expected to do well. For that reason we did not plan on doing a great deal of pre-opening marketing.

As a matter of fact we did no pre-opening marketing and planned a soft opening. What we did have was plenty of publicity from both the local newspaper and all four TV stations, so that by the time we opened the market was ready.

We actually opened two days early without announcing the fact that we were going to be opening two days early, but to not alienate the media we did let them know as long as they weren't going to announce it in advance. They could be on hand for the opening, but they couldn't give anybody in the market advance warning.

It worked much better for our dealers. All of them were very nervous, some to the point of becoming physically ill before they actually faced live players.

The length of time to stabilize.

It took us about four months to reach real proficiency to the point that we felt that dealers were moving the game along at the speed that we were hoping for; it was six months before we reached a full stable staff with a minimum of overtime.

Adding capacity.

Do it cautiously. React to the market. Wait for the honeymoon period to end. For the first three months we were open it was virtually impossible any time between 10:00 and 2:00 a.m. to find a spot at a table without waiting.

That will ultimately dissipate. And it did. But we still, even at that point, recognized that we needed additional capacity. We added eight blackjack tables, a craps table, another roulette table, and three more poker tables.

The carnival games mixed with blackjack is also something that needs to be considered. Games like three-card poker, something that's now called Crazy Four, which used to be called four-card poker, Pai Gow poker, mimi-baccarat, those games.

There's always something new being introduced and players always see something new in a different jurisdiction and want it added at our place. If the demand is there, we generally take a look at it. But don't go too quickly.

And throughout this period we were adding slot machines. Not adding, phasing out the old coin machines and bringing in ticket-only machines.

In looking at finishing our expansion we're in the process of adding a new paddock and jockey quarters. The old paddock demolition began immediately following our last race of our mixed meet last September. I guess that was this September.

We're also adding an entertainment and banquet facility of about 18,000 square feet. We lost one of our party rooms in the table games expansion, when the poker room took over that room. We're adding two new restaurants and we're going to further increase table games and slots. We're approved to go to 2,000 slots and 65 table games from our current 45.

Summary: Make sure you know the gaming market before you decide how big and how soon you want to jump into it.

Hire experienced management staff, if you don't have them on hand. Allow time to train managers and supervisors. Overhire, anticipate the dropout rate during training, and anticipate attrition.

Keep it flexible. Consider alternatives and plan for additional growth.

And here's what our facility is theoretically going to look like in the spring of 2007. Although I think somebody was a little bit optimistic about what the landscaping will be at that point.

Thank you.

(Applause)

MR. GREGORY SAUNDERS: Good morning, everyone. Sitting back and listening to my colleagues here from a regulatory standpoint, I was thinking about this speech and thinking about what I was trying to do in the ABCs of Start Up in talking about jurisdictional control and jurisdictional experience; how we move from your design

and your concept up to an operational facility from a regulatory standpoint. And what I'm struck by is that no jurisdiction is the same.

We're all different, we all do things different; our statutes and regulations are different, and there's really no way for me to do this generically.

So what I'm going to do is talk about the New Mexico experience and what we do, how we did it, what our statutes look like and some of the things that are important when talking to a regulator about the things that you need to do, and again, from a regulator's perspective.

And everything that I've heard this morning talks about how we get a facility up and operational and all the marketing and all the considerations that an operator needs to do. And with due respect to my colleagues here, there was fairly little mention of the regulator.

The regulator is an integral part of what you do in a very strictly regulated industry, and we have a function that we try to do as least onerous as possible. Again, I know that different jurisdictions handle things different ways. We'll talk a little bit about how New Mexico does and how we try to be a partner with our operators.

Another introduction here, the deputy director and chief information officer; and as you heard earlier, I've not been years in the business in the regulatory environment. That was all hands-on, OJT.

Gaming was established by statute in 1997 in New Mexico, but we didn't start operations until 1998. At the time that the board was incepted there was virtually no one in New Mexico that knew anything about gaming. I came from Children, Youth and Families; they stuck me in place and said, "Start this thing up."

We all learned from scratch. And many of your regulators are going to do that, and you must recognize that. A lot of these new jurisdictions are not established yet, your regulator is not fully aware of what his powers are, his responsibilities are, so keep that in mind.

We began operations in July of 1998 and we have the regulation of legalized gaming. And what we have in New Mexico is limited legalized gaming. We have racetrack and not-for-profit casinos and bingo and raffle underneath our purview. But we have a legislation — if you'll notice above it says, "Agreed Upon Relation Between Compacts and Limited Nontribal Gaming.

In New Mexico the tribal compacts and the statutes work hand in hand. The statute that governs the racetrack casinos allows only limited gaming. It allows only so many machines, it allows no table games, establishes the fee structures, ensures that the machines that are in those casinos are all attached to a central monitoring system, which we can talk about later. Very strict oversight and control.

High level organization. I throw this in just so that you understand that there is a structure that we follow internally as well as externally. We have five board members, and those are set by statute also. We have a member that is an attorney, a member that is from the law enforcement environment, a member that is a CPA, and an ex parte member that is from the public sector; and we have the racing commission — which is another entity — we have their chairman on our board. So that's where the crossover comes.

I'll also tell you that in New Mexico currently there's a move to put both the racing commission and the gaming control board under one roof, have a single board to try and regulate both industries.

House Bill 3999 was passed in 1997. We heard a little bit earlier about a contentious fight to get legislation in process, or at least the fee structure as I was hearing. New Mexico passed this by one vote, it was a very contentious bill. There were a lot of things thrown into the bill that we've had to live with over the years and we've had the ability to change that.

You as operators, you as the people out there on the front lines, have a lot of ability to get that statute changed. You have your lobbyists, you have your voices; depending on what state you're in and what your legislature looks like, you're successful or you're not.

We have a very, very vocal lobby and they are very good, and we work together with them to make the statute conform to what the legislature wanted, but also what are the realities of your business. So there has been a lot of changes.

Sixteen percent revenue sharing, I threw that in. Actually, I left that in from a previous speech. Sixteen percent revenue sharing was with our tribal compacts. The fee structure now in New Mexico for racetracks is 26 percent on the net take and 20 percent going to the horsemen's purses, the effect rate of purses.

Legalization of video gaming at certain non-profits and racetracks, this is all part of the legislation. We have the mandated computerized central monitoring system, and most jurisdictions that come on line now will have that kind of control built into the statute.

In New Mexico we have to have every slot machine connected to our central monitor system and be able to be regulated from our central facility in Albuquerque. Right now we're running two such systems, we're running an old Legacy system from VLC, many of you will recognize that name, Video Lottery Consultants out of Bozeman, Montana; and we are also running SUI's Aegis system on our newest facility.

Our experience? We conducted successful start-up operations early on in 1998 when we were incepted. We went through an RFP process, established our statutes, established our rules, established everything that we required in order to get a facility operating early in 1999.

The first one came on board eight months from our inception, and that was in February of that year. By the end of that year — actually in August, so about six months, seven months later we had four racetrack casinos running.

Now, this is a process you've heard from on the side of the operator. The regulator has to be very involved in this — I'll talk about that in a minute — but this doesn't happen without the regulatory process being followed. And we can be a real pain in the neck and we can hinder your process or we can enable it.

And what we try to do in New Mexico is enable that. We try to be the partner — and I will talk about that in a moment. The last one we just did was in Hobbs, New Mexico, Zia Park Casino; that's a brand new from scratch facility, including the racetrack itself, and that one opened up in November of last year.

We also run 75 not-for-profit casinos, offer the same systems that are described earlier. The statute applies not equally to both, there are separate descriptions in the statute for how gaming will operate in each of the facilities. For example racetracks can go 18 hours a day limited gaming, non-profits can only go 12 hours a day, from noon to midnight. So there are differences, there are nuances with each thing that we try to regulate.

Your considerations.

The regulator will apply the statute and regulation to every situation. When you are doing something on your floor, when you are making any kind of decision, think about what the regulator's going to say about it, because we will go back to the letter of the law and we will apply it.

Is there flexibility there? Absolutely. But you have to understand the perspective of the regulator. In New Mexico you must have a racing license before a casino license. The cart before the horse. We don't do them together, we wait until there is a racing license and then we go ahead and do the background and the competitive process or whatever it takes to get you a casino license.

The regulator must approve your plan. When you begin the process we ask for your plans. When you begin your design we ask for your plans. We want to know the functional layout and process that you're going to go through in order to protect you.

We say that we're trying to protect you. We want to make sure that your surveillance is correct, that your security is correct, that — we mentioned before, under 21; so you need to have control of people. That is where the regulator must be involved, nuts to bolts.

And I think the most important thing that I have to say today is: Make the regulator your partner. We will partner with you, we will help you. It may not feel that way, but it begins when your facility is open and you don't have any problems

and the regulator is standing beside you watching what is going on, and you have a very good comfort level that your processes are working, you'll know that partnership did work.

An operator. Let me talk about the different considerations on your side. You must have a thorough knowledge of the statutes, the rules, regulations, the minimum internal control documents that were talked about earlier, policies and procedures and forms. And they are different in each jurisdiction.

And you have a responsibility as an operator to know those, because you've got attorneys, we've got attorneys, and we end up fighting over the smallest things. But your interpretation and our interpretation will probably be different, but ours will usually win. So you need to understand that regulator perspective.

What your regulator should provide you at a start-up and ongoing is exactly that. The statutes, interpretation of the statutes, letting you know when and how, the rules and regulations.

In New Mexico we involve the operators in the development of the rules and regulations, and you should ask for that process if it's not being done. We go through a very long process of getting those put in place, a lot of public input to make sure that it works for the gaming control board, for the state and for the operator.

We conduct all the backgrounds and licensing of your business, key and work permits. We will provide that to make sure — we insist on providing that to make sure that you have the proper people in place.

We will work with you to develop minimum internal control documents and then we will hold your feet to the fire to make sure that you follow them. We will develop policies and procedures for things that do not rise quite to the level of a rule or a regulation. And we will expect those to be followed.

We will develop the forms that you will need to use when you interface with the government, when you interface with us. And as stated earlier, we will provide you and we should provide you with warm bodies and enough warm bodies to make sure that this process goes smoothly.

We want to make sure that we have cops on the grounds at all times. We have our auditors in place, we have our IT folks helping you with your set-ups. We want to make sure that that revenue flow gets in place as quickly as you want your revenue flow to get into place. And what we discovered over the years is this is a symbiotic relationship and it really works well.

And we will provide you answers. We should not be a hindrance. Despite what I said before, despite all the things that the regulator tries to do we should not hinder your process. We should enhance your process. We should help you get through this as smoothly as possible without any legal hurdles.

I ripped through it pretty quickly. I just wanted to give you a real flavor of what the regulator expects and says, and stand for any questions that you may have.

MR. RITTVO: Great.

(Applause)

Yes, thank you. That was really a great set of presentations. So I would like to open the floor to questions if there are any here. We have time, about 10 or 15 minutes worth questions. Yes, sir?

MR. ROBERT BUTCHER: What consider — or what concerns do you have on the possible negative effect that integrity issues on the racing side of your operations have to the public perception of gaming operation? How do we address them?

MR. RITTVO: The question is what implications are there on the public integrity side of racing, and the implications that it will have on gaming? Did I paraphrase that well?

MR. BUTCHER: Yes.

MR. WENTWORTH: I don't know. I'll take a whack at it.

For us, the impact of adding a casino with so many greyhound tracks in the country and virtually no live pari-mutuel handle. For the greyhounds that race with us we actually pay the greyhounds more dollars in purses than we take in in live handle. For them it's been a good thing.

We have a list a mile long of people that like to come to race with us. In my instance I believe there's a balancing act for us being a not-for-profit corporation that has an obligation to the City of Dubuque, who owns the facility, to the not-for-profit charitable organizations that last year received \$2 million from the racing association and the greyhounds themselves.

So rather than shareholders, this is a public corporation, we have stakeholders. That balances. It's a delicate balancing act when the not-for-profit corporations realize that the greyhounds are getting more dollars in purses than they're receiving, which actually will happen in Cedar, that's not a good thing in the broad perspective.

So we operate to try to balance that. As far as the marketing aspects of it, we have not found that it increases handle. We found that some of the players that have come to see us are dwindling in size just by expiration dates, and from a pure political perspective. Tom may have a different story. I can only speak from just the baseline facts that I see.

And trust me, this comes from a person that they hired as a mutual clerk five years ago. It's a sad thing. I could add, too, that I think the arguments pro and con for gambling have been thoroughly fleshed out in pretty much every state.

There was nothing about adding either slots or tables to the thoroughbred track that went anywhere beyond those arguments. And as Tom mentioned, in Iowa all gaming licenses are held by not-for-profits.

But Dubuque Greyhound and Prairie Meadows are actually only two of the not-for-profit license holders that have not hired management companies such as a Harrah's or Ameristar or Isle of Capri to operate their properties.

That puts both of us in a position where we can contribute a great deal more back to the community, in our instance our total community betterment is around \$5 million, so we are looked at — I wouldn't say favorably in the community, but it certainly mitigates some of the negative impressions that the citizens may have.

MR. BUTCHER: I was thinking a little more in — like we seem to have a rash of positives; our thoroughbred operation and the trainer appeals, he has a stay, and as far as the state's concerned he's still allowed to participate.

But on our gaming side this is going to be in the newspapers. Are you going to say that in the best interests of Prairie Meadows that you cannot participate here until this issue is resolved with the state or are you going to let them participate?

How are you going to handle situations like that?

MR. MANNING: Fortunately we haven't had to. I can't speculate on how it might play out if it were to come into play.

MR. WENTWORTH: The only thing I want to add is that I think everybody understands that a gaming license held by any entity or individual at any level is a privilege, and that we work with the regulators. And they have the final say. I'm sure Greg will let us know that. I'm sure that happens in all jurisdictions

MR. SAUNDERS: My comment would probably go or throw back to the other side. I mean, there's as many integrity issues on the gaming side as there would be on the live racing side. And we would take, as a regulator, we would take those equally seriously no matter where they came from.

In New Mexico there's a racing commission that will deal with the subject that you just discussed. On our side what we — we use many things to make sure that that integrity is held, one of the things being our central monitoring system.

And when we find issues, as we have at some of our smaller casinos, non-profit casinos, we'll shut them down and we will take a very pro-active role to anything that we find that will be a problem so that we don't allow a blight to the industry on either side to go unseen.

MR. RITTVO: Yes, I mean, I think you touched on something. Isn't it really a separation between gaming and racing often now, with how they are almost licensed in one does not necessarily directly impact the other, they're separate licensing.

MR. SAUNDERS: In New Mexico there's definitely separate licensing and we do hold them exclusive.

MR. RITTVO: Again, that's the perception we've seen around the country, so I think it became more of a public relations-type issue; then it becomes really a licensing type of concern for either element if there's a problem in gaming or if there's a problem in racing as it affects the suitability and activities within those subareas of operation.

MR. SAUNDERS: I would agree, yes.

MR. RITTVO: Don't?

MR. DONALD A. BRENNAN: I'm not familiar with the Iowa model, but isn't there a great deal of political pressure on what charities get divvied up? Who decides that?

MR. MANNING: Well in our instance it's pretty much all contractual. Thirty-three million of that \$35 million goes to Polk County, the county in which we're located; the city of Des Moines, Des Moines schools, and a couple other lesser recipients.

What we actually have to give away at the end of the day that is discretionary is about \$4 million. We're managed by a voluntary board of 13 board members. They in turn have selected a grants advisory committee of 13 members, none of whom are directly affiliated with Prairie Meadows. They decide where the money goes.

MR. WENTWORTH: And in Dubuque's case we are governed by similar formulas. Ours starts at least with the city, that, again, owns the facility and the property, the 38 acres that we sit on. At the end of each year we take our cash flow; 40 percent goes back to the City, 30 percent goes to charity and 30 percent we hold for a capital improvement fund to try to do projects like I've just explained, so that formula drives the process.

The city also charges us rent, we are tied to the city very closely, as is Prairie Meadows to Polk County. But as far as the charitable giving, our structure works very similar to what Tom just said. We have a volunteer board, we have a committee that looks at, last year over 500 applications, 336 were successful.

But I'll have to tell you that of the \$3 million we gave away, if we looked at the total requests from those 500 greyhound applicants, the total asking was over \$7 million. Will we ever, ever say a hundred percent of your asking? No. It's a tough process.

MR. RITTVO: Tom, the model to me is really non-profit that hold the license, so it's not a foundation, that's given by others. Sometimes I've seen where we set up a charitable foundation.

This is really different, the non-profits actually hold the license and it's an operator/contractor operation, but they are the owners, the client that goes in there. And I think that changes some of that political dynamic that you're talking about.

Back there, sir?

MR. BUTCHER: Yes, sir. My name is Robert Butcher, and I would like to know if either of you gentlemen encountered any issues transitioning from real racetrack to a race casino?

MR. RITTVO: I'm sorry. The question was, have any of these gentlemen found issues making the transition from racetrack to racino?

MR. WENTWORTH: Let me start with that. You have to know where you live and what kind of community you live in. In Dubuque it very much is a labor-oriented town. We have three different unions in our facility with four different union contracts, probably about 90 percent of the employees at our facility do have union representation. We negotiate three-year contracts. We're currently negotiating for the security people as we speak, and you know the titles of the unions have nothing to do with it.

It seems like while you have the machinists and aerospace, food and beverage workers, we have the steel workers that represent our security and we have the operating engineers that represent maintenance.

So in our case we're very unionized, but the environment we live in is that kind of an environment. And while there are, I think, a little bit more rules that are created for the benefit of both sides, both sides learn to live with that.

MR. MANNING: At Prairie Meadows we're about 80 percent unionized. I was not at Prairie Meadows in 1995 when the slots came into being. This last year when we added tables, we actually started out a little bit low when we projected tips, or we over-projected the tips that the table game dealers were likely to receive, so consequently we underpaid them on an hourly basis.

After a period of a few months when that became evident, there was a renegotiation and we did increase the hourly rate by \$2 an hour to bring them up to the overall pay rate that we had projected for them. So I think that overall we have a very good relationship with the unions at Prairie Meadows.

MR. BUTCHER: I guess another part of the question was any preference to the union employees that were already in place when the transitions were made.

MR. RITTVO: Again, the question was, was there a preference given to union employees when the transition was made?

MR. MANNING: No, not at Prairie Meadows.

MR. WENTWORTH: In our case we had job openings that happen all the time. Some of it is limited by the bargaining unit that you are in, and certainly those rules prevail. Going from one bargaining unit to another gets a little stickier.

But no, we do post them in before we post outside.

MR. RITTVO: Thank you. Any other questions? I have one. Just in talking to all of you, you really have gone through what I will say are very successful implementations of start-ups. What was the greatest hurdle each of you had to cross to be able to get to where you were? What was the sort of major unanticipated problem or the issue that just —

MR. WENTWORTH: Time and money.

MR. RITTVO: And that was unanticipated?

MR. WENTWORTH: Time only crunches you at the end and sometimes in the middle. Money, in our case from the time we started the project to the time we ended up. I talked about 560 steel pilings; the cost of steel just killed us.

MR. MANNING: In our instance other than that roulette wheel, there really wasn't — wasn't that much that was unanticipated. I think, as I mentioned, we did have a higher dropout rate from our dealer school to licensing than we anticipated, but everything went pretty much according to plan.

MR. RITTVO: That's amazing.

MR. SAUNDERS: I would believe for the State of New Mexico at the time that we began in 1999 we had four racetrack casinos trying to open. We had four going at the same time. And it was in the middle of a very large learning curve as I explained earlier.

And I think that was the biggest hurdle we had to get over was learning to not be overbearing, learning to do our job effectively.

MR. RITTVO: Thank you.

Yes?

MS. FLORENCE BUHR: I'll respond to that question. I'm from Iowa. I think one of the biggest hurdles we had when Prairie Meadows has been the model was our successful lawsuit; went up to the Supreme Court to allow us to have table games;

and better than that, it changed the tax rate because none of us at Prairie Meadows would be what we are today without the tax rate being changed.

MR. RITTVO: Got you. So again, from your perspective, you know, the major hurdle that was overcome was the reduction in tax rates?

MS. BUHR: Yes, tax rate. And then also allowing the expansion into table games.

MR. MANNING: And if I recall right that was essentially an equalization of tax rates between the tracks and the riverboats?

MS. BUHR: Right.

MR. RITTVO: Thank you. Are there any other questions, comments? If not I want to thank you. This was a great session and we'll be a minute and a half early going to break.

(Applause)

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