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Looking in the Crystal – What Do Not-For-Profits See in Our Future?

Moderator:
Hoe Harper, President and General Manager Del Mar Thoroughbred Club

Speakers:
Charles Hayward, President and CEO, New York Racing Association
Harvie B. Wilkinson, Vice President, Keeneland Association, Inc.

MR. DOUG REED: Good afternoon and welcome again. The weather report looks good for those of you who don't have meetings tomorrow afternoon as we only have a half a day scheduled. So those of you that don't have satellite meetings, board meetings, etcetera, it might be a good day to enjoy the weather.

I would like to introduce our moderator. First, a quick thank you to our sponsors. This panel is sponsored by TVG. The refreshment break was sponsored by XpressBet. Shortly after this session we have our usual reception in the exhibit area and that is sponsored by Mountaineer Casino, Racetrack and Resort.

Many of you or almost all of you probably know our moderator. Many of you know him as the director and president, G.M. of the Del Mar Thoroughbred Club, Joe Harper. I know Joe in a different capacity as he is a member of our advisory council. Mr. Harper has done many, many things for the Program and we are very, very grateful. He has taken interns every year; he has helped the Program as an ambassador. He has helped us financially, there is just a number of ways that Del Mar has been a great partner and he is a great member of the advisory council that we always lean on for help. So please help us welcome Mr. Harper.

(Applause)

MR. JOE HARPER: Thank you, Doug. This is the last one of the day, so we won't stretch it out too long. I appreciate you hanging in there. It should be interesting. Looking in the crystal ball, at least from a not-for-profit companies that — I guess we're sort of not-for-profit. There is a big difference in this industry now, the not-for-profit companies are making profits and the profit-making companies aren't making profits.

I think I probably should give you a little better definition of what a not-for-profit is. I know Del Mar Racetrack is a non-dividend paying company, kind of a not-for-profit company. All of our money goes back into the till there that handles capital improvements at the Del Mar fairgrounds. We don't pay any dividends, none of the directors make any money and we're very restricted in our budgetary things with the State of California that owns the property, so that's kind of us. It's like Oak Tree Racing Association is another not-for-profit company, all the money that they make goes back into the game some way or another. So it is a little like a non-dividend paying company, we're not in it to make money, we're in it to — why are we in this thing? Have fun, that's it.

I've got two really good guys up here and between Harvie and Charlie, they've seen a lot of this industry and they've seen it from different points of view. You know, Charlie, I will tell you, if there is one guy who has been through the war zone more than anybody in this industry in my 40 years of being in this business, it's Charlie Hayward. You know, I used to really kind of envy Charlie when he first got out of the publishing business into racing management and then a few years later I was saying, that's the poorest and most miserable son of a bitch that I've ever seen. I don't know how he can stand doing what he's doing, the state has got him on a leash, they have a monitor in his office, they're sending his employees to jail. My God, even Braulio Baeza couldn't tell how much a jockey weighed by the time it was over.

I then figured, well, knowing Charlie, I knew there was a way out of that thing, especially with him at the helm, and there certainly has been. I'm looking forward to seeing how the road to recovery — and now he has actually got a tie on and he is not in court, so this is a good sign. He is a hell of a guy and my hat is off to him. I'm looking forward to hearing him speak.

First we're going to listen to Harvie Wilkinson. Harvie is vice president of Keeneland, as everybody knows. He is a former lawyer, which Nick Nicholson was smart, Nick and I both hired lawyers as our number one guy primarily to keep us out of jail, I think. We gave them pretty good rein with the companies and both Craig Fravel and Harvie have done really good jobs at Del Mar and Keeneland.

These two guys have been busy trying to figure out how to better a good track. You look at these three tracks, Saratoga, Del Mar and Keeneland, it seems to be that is kind of the place that everybody wants to be. They are a great on-track experience. We could all be sitting back and saying, aren't we clever? But we can't do that, we have to keep reinventing the wheel and coming up with new and better ideas to keep the patron in our racetrack. We've been dealing, the last few years really, with how to get our on-track product improved and how to get people actually through the gates and I think that is always where I've been coming from.

And so Harvie, I know you've been doing some studies and paid some money to some high-powered consultants, and what do they tell you?

MR. HARVIE WILKINSON: Well thank you, Joe. First of all I want to compliment Charlie on his tie. It's a Keeneland tie. If you haven't done your Christmas shopping, you can go online to the Keeneland gift shop, get all your shopping done; after the fall sales, we need it.

Welcome this afternoon. Thank you all for hanging in there to the last segment of today's programs. I know that it is a little daunting to be talking up here when we're the only thing between you and alcohol, so we'll try to move it along.

I would like to take a moment to try to clarify what Keeneland's corporate structure is, as Joe just explained Del Mar. We too are a for-profit corporation but we are a non-dividend paying corporation. The trustees of Keeneland who hold the stock and the directors serve without any compensation. As a result we plow all of our profits back into the facilities or the industry or purses or charity, and that is our mission. Our mission is very simple, "to promote and protect the thoroughbred industry." Everything that we do we do with that mission in mind. To give you an example of how we support the industry, in 2008 at our two meets, they are 15 and 17 days respectively, we are required to give 51 percent of the handle back by way of purses. This past year we gave back 84 percent of the handle. So again, that is an example of a for-profit corporation with a not-for-profit mission. We do it for fun. So that resulted in an additional $7.5 million going back into purses that otherwise we wouldn't have done if we just followed the contract.

This past summer Keeneland embarked on a rather interesting and really a fun project, we retained HOK, which is one of the premier leaders in the sports facilities industry and we retained them to help us develop a long-term master plan that will guide us over the next 20 years. They looked at out facilities and amenities, they looked at how we do our wagering, our technology. They looked at our customer base, both on track and off track. We talked about safety, welfare, integrity and other initiatives with HOK.

On facilities and amenities they did a complete and very exhaustive inventory, if you will, of all of our amenities from bathrooms to concessions to kitchens, everything, all backroom operations as well as where the public sees and operates. And they also looked at a lot of surveys that we've done over the past five years. Every couple of years we always do surveys, very detailed, very exhaustive surveys of our customers. Whether they are up in the corporate suites or just hanging on the apron in front of the rail, we interview them and try to get a lot of feedback about what's working well at Keeneland and what's not working well at Keeneland. And from these surveys, from the inventory this summer and from exhaustive interviews of people around Keeneland, we came up with some interesting information on customer needs.

Number one is convenience, they want it seamless. They want to be able to show up, have amenities, they want to be comfortable and they want an exciting and fun day. They want entertainment and obviously many people want social and business networking, which is very prevalent at all sports venues.

On entertainment, it is not just entertainment on a race day, particularly at Keeneland when we have two short meets a year and you are making the investments that hopefully we will be able to do over the next five to 10 years. We will have to develop a very extensive special event program on non-race days to help pay for all of these amenities and all of these improvements. We have a pretty extensive special event program now at Keeneland and we will probably double or even triple it after we complete our long-range plan. I think most any racetrack is faced with that. You have a large facility, you're only open a portion of the year, what are you going to do with that facility when you're not racing? Well, you need to rent it out for meetings such as this, wedding receptions, conventions, whatever, and we do a lot of that. We probably rent it out, various portions of our facility, 250 times last year.

Next we wanted to create an atmosphere so customers arrive early and stay longer. Now, that sounds simple but at Keeneland we have a late-arriving crowd each day and then they leave early. Why is that? They aren't comfortable. A lot of them stand all day and that is not good. So we are trying to expand capacity so that they are comfortable when they are there, they can wager and they can get to the restroom facilities when they need to. More importantly, when they are at Keeneland we want them to wager more and higher per capita for food and beverage. Those are critical as far as profitability.

We want to modernize and streamline the reservation process, make it more online for ticketing and admissions. We want enhanced amenities in our box area, the outside boxes. We want boxes larger; our boxes were built in the late 1930s, people are bigger now, if you haven't noticed. We're big, we take up a lot of room in those boxes. We're going to try to make bigger boxes, more comfortable boxes. We're going to have access to indoor lounge areas hopefully. We're going to hopefully have wagering in the boxes and we're going to have food service to and from the boxes. Similar to what you see in a newer sports stadium. I know, Charlie, you've got several major sports stadiums coming up in New York and they are looking for all the detail for the amenities. People want to be comfortable when they are at a sports event.

General seating. I think that I created a new word, weatherization. People want access to both inside and outside; they want climate-controlled areas, if they have an outside seat they want to be able to retreat inside if it's cold. If you've been at Keeneland in the spring, there is no place colder on certain days and in the fall it can be really hot. So we're trying to create areas within Keeneland that will better accommodate people when we are really hot or really cold.

People want more variety in food. They want it available and easy access and they want upscale food. They want really high end-cuisine, whether it is at a concession stand or dining room, they demand better food service.

On corporate hospitality, we hear this over and over with our fan base, there is a growing demand for larger corporate suites with high or upscale amenities. If you have been to Keeneland, we have 23 corporate suites, they are all too small. We need larger suites, we are probably going to double the size of the suites and also allow people to have outside access as well as inside with the corporate suites. Again, they want amenities in those suites, they want the flat screens, they want nice, comfortable furniture and they want, of course, upscale dining.

Racetracks compete with casinos, we compete with all pro and collegiate sports, and all newer stadiums now have these really nice upscale amenities and we have to do the same if we are going to compete with them.

On the outdoor experience, if you come to Keeneland, whether it is spring or fall, we have huge tailgating groups. Now, part of that is because in Lexington we have the University of Kentucky, but we're trying to meet their needs. We have wagering tents outside in the tailgate lots with sound systems and televisions and mutuel clerks, mobile clerks and music. We try to make the tailgating a nice, fun, social event. There is a growing demand for green space and we're trying to develop new areas for green space where people can come and actually be on grass. You can do that at Saratoga but there aren't a lot of racetracks that have a lot of green space.

We want a family friendly environment. We want to appeal to the younger fan, we want to grow the new fan base and they want a place to bring their families. If you come to Keeneland on Sundays, you will see a lot of strollers out there.

Next is the casual customer, those that just show up on a day, they don't plan ahead of time, they don't have a reservation for a table or a box. We need to make the purchase and the admission ticket an easy entry. We need to give them more seating. Right now we don't have enough seating. We need a casual restaurant atmosphere. We need sports bars, we have two now, we could have six sports bars and it may not be enough at Keeneland.

Fans want to enjoy the horse up close, we hear that over and over. We sent out surveys, we did on-sight surveys, people at Keeneland love being around the horse, that's why they are there. The paddock, if you come to Keeneland, it is very crowded. People want to be there to see the horse and enjoy the whole atmosphere.

Sight lines are important. When we consider expansions, we want to make sure the sight lines are such that people don't miss an opportunity to see the entire race.

Other amenities that we are talking about are better traffic patterns and more valet parking, which is a growing demand.

On wagering, with the experienced player, we have used our Web site, we completely revamped our Web site this fall. We redesigned it just completely to make it more interactive, more engaging, easier to navigate, and it has been a big, big hit. We have very specialized wagering information and we call it PolyCapping. As most of you know we have the Polytrack surface at Keeneland and as a result there are a number of big players that didn't know how to handicap Polytrack. Well, we went out and got lots and lots of data about the Polytrack, the temperature of the track, how it was worked that morning, moisture, the works, and we provide that in our PolyCapping database every day. The experienced player has told us that they love that. Now, it is probably overkill for a lot of people, but the experienced players love the PolyCapping data. We have that on the Web site, we have that on internal channels and we are lucky enough to have a very nice Daktronics tote board and so we have a lot of information on our infield board that normally you wouldn't have on an older type tote board.

It is critical to educate the new customer. We're looking for ways to get them around the facility easier and with more assurance. On any given day our surveys say that 10 percent of everybody at Keeneland is a person that has never been to a race before. So for those 10 percent, we want to get them back, we don't want them to have a bad experience. So we're trying to have more electronic signage, we're looking at edu-tainment, which is developing new customers. We're working with United Tote on more fun and interactive and easier bets where you may not win a lot but you don't lose a lot and you keep betting and betting. We're looking at fractional wagering. We're looking at those things where casual or new or novice players are not overwhelmed or intimidated.

On the mentoring, we provide experts when a group comes to Keeneland, they can call ahead of time and we will have some with them, somebody there for part of the day to teach them how to handicap. Handicapping is very daunting and these new people need to know how to do it.

We have a number of fan education programs prior to the gates opening up. The 10-cent superfecta has been very successful and it has been stealth education. People have to handicap a lot of horses instead of just picking the favorite and the 10-cent superfecta has been very, very fun, particularly with the college students and the females. My daughter, on Bluegrass last year, won $2,400 on a 10-cent superfecta. Then she had to learn about the IRS forms.

She said, can't you fix that?

I said, no way.

She is going to have to pay tax this year, she is at the University of Kentucky.

Further on wagering is convenience. Obviously, all of us lose some handle daily if wagering is not convenient. Big question, are mutuel windows obsolete or will they be obsolete in five years, 10 years, whatever? I think there will always be a need for some mutuel windows, but when we do our master plan we're going to look at how many stationary windows will we need in the future the way technology is going. We have 30 to 35 mobile clerks every Saturday at Keeneland, we probably need to double that to make sure that everybody in the box area is covered for wagering. The mix of mobile clerks, the mix of stationary clerks and BAMs will change over time. We see it already, the younger players don't hesitate to go to a BAM and the older people with gray hair like me, they like to see a person and they go to a mutuel clerk.

The PDAs are becoming popular. People can use their phone to wager. That will change the whole dynamics of wagering immensely. We have kiosks at Keeneland where you can look at the past races and other race information, well, all that can be on a PDA, it can be on your phone now instead of going to a stationary kiosk. I know NYRA has already moved towards the PDA with the phones.

Data and information. Again, we have a wonderful infield board with Daktronics. We can provide much, much more information than we could in the past. We have dedicated television channels for wagering information. Last meet we had 60,000 hits per day or 60,000 visits per day on our Web site. Just three years ago we had 30,000 visits per day, so it has doubled in a little less than three years. So the Web site is a very powerful tool to get your message out, to get your marketing, your promotions, your wagering information. People love it and they use it and they come.

And now Trakus, I have to put in a plug for Trakus because that has been a huge hit with our fan base. They love it because of our infield board, it lends itself to Trakus. Both the experienced fan who likes to handicap by analyzing a race with the Trakus data afterwards and the casual fan watching it while the race is on, it has been a huge, huge hit.

Technology. I've already talked about this a little bit. Keeneland, right now we are about 90 percent HD with our video screens on campus. Probably by this spring we hope to be 100 percent HD with all of our television screens. We have 10 HD cameras, cost us over a million dollars, but we think it's worth it. Every race that we do is in HD, we have 10 cameras and we actually rent a few extras for the paddock shots. We use them daily and it makes our export signal second to none in the country. People that watch sports and sporting events on television expect HD. We all need to go to HD immediately. If you watch a pro football game on HD and then you go to the racetrack the next day and it is not HD, it's flat. So I would advise you to get your HD cameras and send your signal out to the simulcast with a good, clean, HD signal.

Paddock cameras, very popular. People want to see the horse prior to the race in the paddock. We found that out by lots of surveys. I've already talked about the kiosk. We do live streaming of every race, everyday on our Web site.

Off-track customers. On our export signal, again, HD will drive people to the Keeneland site and I think that people will wager on Keeneland's site because it is HD. Hopefully whether individually or with a group we're going to have more user friendly ADWs going forward.

Our Web site. Again, 60,000 visits a day. Most of those are obviously not in Lexington. People are using our Web site to help them handicap their races. On our incoming signals, unfortunately we don't have a dedicated, self-contained simulcast area like Del Mar has. So we use part of our grandstand but we've upgraded it. You need a warm and inviting atmosphere. We think there is always going to be a need for some level of simulcast on-site because a lot of people are social, they like to be around friends to wager. Some are individual and do it by the Internet, others like to be there and tell the guy at the table next to him, I won that last race, and brag a little bit. They like the sports bar venue, that's very popular.

Again you have to look at your customer base, there is a lot of gray hair, — I can say that because I have it — there is a lot of gray hair in the simulcast area at Keeneland and we need to cater to them. They like it deadly quiet, they don't like the sound on. But then we also have a sports bar where everybody 35 and under gravitates, they love it. There is action in there, there is pop, there's sizzle, there is buzz, they like activity, they like noise. So we try to cater to both groups because we can't just cater to the older, more established simulcast people, we have to bring on the new customers.

Safety, welfare and integrity. I'm just going to say that these are the kinds of things that we do when we have a not-for-profit mission. Obviously, we invested in Polytrack which we think was the right thing to do from a safety standpoint. We invested in safer starting gates. We can go on and on about that, you can see it there. But these are the kind of things that Keeneland is able to do because of our not-for-profit mission.

Other important initiatives, environment. Joe and I talked about this earlier. We're just now starting to go green at Keeneland. We have a committee that meets monthly to try to figure out how we can go green with recycling and other issues. Joe tells me that at Del Mar, not only was it the right thing to do but they have actually made it profitable, and that is what we hope to do in the near future. And it is great PR, particularly the young people, when you say that you are going green and they see it at your facility; they love it and they embrace it.

New owner development. I've got to just say a quick word on that. We're investing heavily on this. This might be the most critical area facing our industry today, to develop new owners that embrace our sport, invest in it and race.

And then finally, from a historical standpoint with our library, we're presently preserving and digitizing the DRF collection, thank you, Charlie, from your prior life. We're doing a lot of things to try to keep racing out there in the forefront with people, to educate and attract new fans.

Thank you very much.

(Applause)

MR. HARPER: Thank you, Harvie. You know, when you look at the list of things to do, I mean, racetracks come in all shapes and sizes and economic areas and profitability. I think when you look at a list that he has compiled, it's pretty much, you can't go wrong picking and choosing anything off of those lists. It is what patrons demand now. They are used to getting spoiled out there and I think that they are certainly on the right track. It all boils down to doing something for our customer and getting our on-track business back. I was also glad to see that you were putting in some grass at Keeneland. We found a cheap way to do that at Del Mar, we just had three reggae concerts, we had all the grass you could possibly want. It was $30,000 bucks in munchies for one concert. I don't know what that means.

We have paddock cameras too. In fact, you could see Matt Garcia get arrested by the sheriffs on our paddock camera this summer.

Anyway it really is fun to have Charlie here and smiling, because like I said, he has been through a lot. Now he has got a new franchise with the State of New York. He has bankruptcy hopefully behind him. He's got a $30 million advance, I was reading, from the state. You are doing some good things at Saratoga, capital improvements. Charlie, tell us about it. What's going on?

MR.CHARLES HAYWARD: Before we get started, I want to talk briefly today about the not-for-profits because I think it's relevant to the discussion on the future of racing. I'm going to talk a little bit about the new franchise deal and the implications that it has for the purses and the VLTs. Then we've retained Turnberry Consulting to do some long-term, strategic planning. Then I'm going to take just a brief drill down in three areas, there are multiple areas, and I want to drink as much as you guys do so I'm not going to spend much more than three examples. And then I would like to dive in to the waters of New York OTB because I think we are on the verge of a real opportunity to improve that business model, not only for the benefit for New York but for the benefit in general.

So just starting off with the not-for-profit. During the franchise process I really thought that we could distinguish ourselves and articulate the value of the not-for-profit model. It was falling on deaf ears and it was probably because, back to Joe's earlier point, we were not-for-profit but we also weren't a profit-making entity. We had lost money every year since 2001. But the reality is that the not-for-profit model is a good racetrack model and it is great for the industry. The financial attributes of thoroughbred racing are not conducive to a for-profit business. Right now we are at zero growth and actually for the last six months we have been going backwards in terms of revenues. It is a very capital intensive business without scalability across our facilities. We have relatively low operating margins in some part due to the whole way in which the simulcast model was constructed. It is not the fault of the for-profit or public companies, they have a fiduciary responsibility to be first in line in terms of returning money to their owners, in the case of a private business, or to the shareholders. Not-for-profits don't have that issue. And in fact, not-for-profits can make investments with long-term paybacks and return more revenue to the industry stakeholders.

Harvie mentioned Trakus, I think Trakus is a very good example. You look at Trakus and you talk about it financially, you look at the attributes, you say, okay, it's going to cost me probably four or $500,000 to install it, it's going to cost me a lot of money to maintain it. What is the run rate or the return rate on that investment. I can guarantee you that when Woodbine, Del Mar and Keeneland put in, they couldn't go to their CFO and say, I'll guarantee you that within 18 months we are going to have a proper return on investment. So in a for-profit environment, as attractive as that seems, I don't think that you would have seen Trakus being installed anyplace. But due to the leadership of the non-profits who can take a larger view down the road, I think eventually we are going to find a way to monetize Trakus. It is going to be better for the simulcast signal, it's going to be better for the on-track customer, particularly at Keeneland where they have those beautiful boards.

Okay, let's turn and talk about the new franchise. It's funny, when we talking about the final deal that NYRA cut with the state, they introduced the term bailout. I can tell you right now that if the federal government was only getting the kind of bailouts that the state got on NYRA, they would be doing handsprings. Our settlement on the land ownership was a bailout deal that went as follows. We own the land, four private entities put together their deeds in 1955. NYRA had been paying the taxes. It was pretty clear from our perspective that NYRA owned the land. The state had a slightly different view based on some legislation and so it was clear that there was some room for the lawyers to make a lot of money. At the end of the day, in return for a 25-year franchise deal, we got $105 million of forgiveness of debt. We got $75 million that we then pass through to all of our creditors, so we paid back everybody 100 cents on the dollar that was bankrupt. So that is $180 million, and then we got $30 million which will bridge us from the beginning of the franchise in September through the opening of the VLT parlors. For that $210 million, the state got back, in conservative dollars, about a billion dollars worth of land. I can tell you that bailout looks a whole lot more attractive to the State of New York than any bailout the federal government is looking at as we sit here and talk today.

We have a slightly modified not-for-profit. We are a unique statutory entity, we were a non-profit and that had a lot of issues associated with that. So we are now just like any other non-profit in the State of New York. We have a reconstituted board of directors. We've had two board meetings. I think it has worked out terrifically well. We were very worried about control. We had had 20 board members, we now have 14. The state had eight public officials, they are appointed, they now have 11. In those 11, for the first time there is a representative of the New York Thoroughbred Horseman's Association, a representative from the very good and strong breeding program in New York, a representative from the off-track betting corporations and a representative of organized labor. So this was a transforming event for us and we will continue on now because a big part of it from a financial perspective is going to be the VLTs at Aqueduct.

Again, just like the franchise was a long, contentious process, the selection of the VLT vendor was also similarly difficult. The good news is that Delaware North has been selected. The nice thing about Delaware North is they are a very good company, they have a big track record, they are a big hospitality company. But from our perspective, they have also run in this racino New York environment with a very, very high tax rate. They operate the racino at Finger Lakes and they are co-partners at Saratoga Raceway. So they've got some good background and good experience running in New York.

Just some idea of the numbers. There are going to be 4,500 machines at Aqueduct spread out around 300,000 square feet. The splits are four percent cap expenditures for NYRA, depending on the win per machine, because that drives everything here. That is somewhere in the neighborhood of $20 million to $25 million a year. We can monetize that, sell that stream and get more upfront money so that we can actually do more capital improvements sooner. We get three percent for operating expenses. That is assuming that we are going to go cash negative, we think that in 2009 we will make a profit of a couple million bucks for the first time since 2000. The deal we cut with the state also says that if we are really rolling in dough, there is what is called a cash sweep, on January 1^{st} of any one year, if we have more than 45 days worth of purses and operating expenses, the state comes in and we pay that money to the state on April 1^{st}. I think that was a good check and balance so that if instead of being $300 per machine it is $600 per machine, the state will enjoy some of the revenues above and beyond that.

As far as a completion date, we had a meeting at Aqueduct last Tuesday with representatives from the governor's office, representatives from Delaware North and from NYRA, they are hoping to break ground in January. They are looking at roughly a 15-month completion which would put them sometime during the second quarter. There has been some scuttlebutt about Delaware North not wanting to go forward, I can tell you just from my information talking with them, they are highly motivated and I think this deal is going to move along pretty quickly.

Let's look at the impact on purses. We pay a lot of money on purses already in New York. We are going to pay about $118 million this year. The breakout, as you can see, Saratoga $750,000 per day, that is number one. Keeneland is number two, I think in the mid-$600,000. Belmont is somewhere right around third or fourth, depending on the year, at about $550,000. And little old Aqueduct at $340,000 a day is still somewhere around 10^{th} or 11^{th}.

And here are the interesting numbers, with a conservative win per machine rate of $300, and we think that it is going to be substantially greater than that, in the first year with the 6.5 percent, because the purses go from 6.5 to 7.5 percent in the breeders fee on the earlier page, the breeders go from one to 1.5 percent. And thanks to Rick Violette of the New York Thoroughbred Horsemen, the governor's office, the previous governor's office was really gaming us on the rates and we didn't think that we were going to get better than five percent. The horsemen weighed in with the support of the breeders and got that up to 6.5 percent going to 7.5 percent. So we are going to have $32 million in the first year to spend on purses. That is going to take it from $118 to $150 million.

Now, we have some really strategic issues to deal with, I don't think these VLT revenues to purses into NYRA are going to be there maybe 10 years from now. We've got to really square away our program, make our capital improvements, put our racing program on a higher level. I hope that I'm wrong but I just think the pressures that are going to be on state government to continue to subsidize racing, I think the pressures are going to be too great.

So we're going to have some real issues, some of those issues, some of those issues are, do we enhance our Grade One program with some of our key races? Do we take the Travers, for example, from $1 million to $2 million? Do we run maidens in Saratoga for $100,000? That is well within the realm of possibility. They run it for about $70,000 right now. Also, tactically, how do we spend the purse money to generate bigger fields? Bigger fields, as you in the racetrack business know, is really what drives handle, it is not quality unfortunately, it is field size. So if we can generate bigger field size it will in turn generate more handle, which will in turn generate more purses. So we will be studying this. The money is not going to flow obviously until the machines are up in 2010. We will be working with the horsemen and really try to make sure that we're taking this purse revenue and really doing something with it.

The harness industry in New York has been in a very tough spot because they have had the enhancements to purses and they haven't seen a commensurate increase in wagering. Well, one of the problems in harness racing is you're pretty much limited to eight entries. Yeah, you can run nine or 10, but they start in the back row. I think that the harness folks have got themselves in a little bit of a trap that we're not going to be in. I can tell you, you will see increased handle on NYRA races based on the subsidies that we are going to be getting as a result of the VLTs, which I think will work to our benefit and could be in an argument for continuing those because all at the same time it is going to be increasing what is a very good breeding program in New York already.

Okay, let's go to Turnberry. This was an interesting choice. Turnberry is a London-based, strategic consulting firm. They are a small firm, they specialize in racetracks and academic institutions, which is an odd combination. But they did do the strategic work on Royal Ascot facilities as well as racing surfaces. I can tell you the two principles know more about facilities, both racing surfaces and buildings, than any group that I've met domestically or around the world. They are doing a strategic review of all facility requirements for the frontside, the backside and the racing surfaces. Their preliminary report which they gave to us a week or so ago, they had conducted over a 100 interviews and site surveys in the U.S. and around the world. We are now working on a definition of what areas we are going to drill down, where we need more research and where we can undertake some of these projects. I am now going to give you three of these areas that we are going to deal with.

Racing surfaces. You know when Keeneland first opened it must have had the trainers knocking down the door to say, when are we going to put the racing surface in? The Keeneland surface, first for training and then for racing, was a really safe and a good surface and was much different than the inside-favoring speed track that Keeneland was for so long. However, the dust has sort of settled now with California and some of these other jurisdictions. So we do not have today any current plan for artificial surfaces in New York, either training or racing. That is not to say that it won't change. We think working a dirt track effectively can yield some very good results. We had two breakdowns in Saratoga last year, one on dirt, one on turf. We had one the year before. I just don't believe you can get any better on breakdowns.

Speaking of breakdowns, one of the things they use with metrics is this 1.2, 1.4, two breakdowns per 1,000, three is unacceptable. That is why California went in the business. The fundamental assumption of that statement is that the tracks are the primary factor in breaking down horses and it is simply not true. Life is just not that simple. Yes, tracks can do that, but these 1,500, 2,000 pound animals running on feet about the size of my ankle, it is a stressful environment. Horses have issues, horses can clip heels and fall down and have a breakdown and that is a breakdown, that has nothing to do with the tracks, nothing to do with how well the horse is. So I think that we need to change the dialogue a little bit.

Fortunately, they are putting information together that looks at this. Where I just don't know that they are going to go and find a solution is on soft tissue injuries. I just don't think that in the studies that they are doing now they are going to find out definitively if these are safer surfaces in that regard. So no artificial surfaces in NYRA for the foreseeable future.

What we are going to do is we are going to look hard at our turf courses. Our turf courses are very old. They are made with very old grasses. They don't drain particularly well. We had Turnberry look at getting rid of the two courses and just doing rail settings like they have at Colonial. That seemed to be an attractive alternative, but they are coming back and recommending that we probably don't do that but that we do upgrade the two turf courses that we have at Belmont and Saratoga and the one that we have at Aqueduct.

And this I just put up here, not that it is particularly stimulating or exciting but it is a big, big problem and a big issue for us at NYRA. At Belmont we have 83 cottages, 450 rooms, so that just shows you how small these cottages are. We have about 900 occupants, generally two per room. We do on occasion have some of their friends that may not even be racetrack workers that are in the cottages. We have a similar situation at Saratoga, 81 cottages, 436 rooms, 900 occupants. When those cement buildings were built, those little cottages at Saratoga, we were running four weeks out of the year and we were training there not much beyond that. We now open up for training at Saratoga with about 800 or 1,000 horses on April 15th. We close training at Saratoga, I think, about November 5th. So our dormitories are woefully inadequate. We're going to build new apartment-style dorms. They will have significant improvement in living conditions, obviously better security, better maintenance. We're going to get the trainers involved from both the management perspective and from the fiduciary responsibility perspective. They can have their help generally all in one area, hopefully. And I applaud Gulfstream, I think Gulfstream did a really good job, probably better than any other places that I've seen in terms of building their facilities. The good news is we've been studying recently the opportunity to secure either state or federal, either loans or even some outright subsidies. So we think that we have a lot of money in our capital budget to put into this area, but it may well be that we can get some financial relief because these folks would definitely qualify as low income tenants.

Just quickly, Turnberry has looked around the world at the racing trends and hospitality and facility enhancement. Keeneland probably stands out as a rare exception, but most major international jurisdictions, whether it is the UK, the Far East, France, have made significant strides in their hospitality and facility development while the U.S. has been stagnant. We're looking at developing festivals of racing within our race meet. We're going to launch that with a Fasig-Tipton Festival of Racing for the Saturday and Sunday prior to their sales on Monday and Tuesday. I will talk more about that as we get closer.

Upscale hospitality for major events. I laugh at this because when we were in the franchise process everyone said, don't do anything at Saratoga, Saratoga is perfect, Saratoga is great. Well, we are maxed out in power, there is no air conditioning there. I'm sure a ton of you have owners or friends that they don't share that same view that Saratoga is perfect. So we will be looking hard at facility issues there. And they have identified 11 different categories of customer needs that we are going to build into our strategy in terms of customer service. Again, the VLT resources will allow us to make our facilities more dynamic and exciting places to visit.

Okay, a couple minutes on OTB because I think that it is not just a New York issue. Right now the New York City OTB conglomerate pays less to racing than anybody else in the country. I think the good news is that last summer while this whole franchise thing was getting resolved there was a standoff between Governor Paterson, who had just come into office, and Bloomberg, who basically was asserting that his OTBs were just fine, they paid too much money to the state and he wanted the state to come in and do a big bailout. And what Paterson said was, sorry Jack, we're going to take the OTBs over, you want to shut them down, we'll take them over. So that was a big deal because you went from a situation where it was controlled locally, a lot of personnel issues, let us say, that now can be resolved at the state level. The state obviously has not had the opportunity or the time to really address it. I think that it is a huge opportunity for joint venture and partnerships, which I will talk about in a second.

Just a quick bit of history. New York was the first state with an OTB network. It is no coincidence that nobody after New York set it up the same way that New York did it, with the tracks and the OTBs. It was launched in the early '70s with six regional OTBs and it looked like a good discreet geographic-based strategy with retail parlors. There wasn't any simulcasting at that time, there were no Indian casinos. It was really an extension of the monopoly that the track had on-track and it worked pretty well for quite a long time.

In 1994 it started falling apart when in-home phone wagering was authorized and the strategy of geographic boundaries began to blur. As recently as a couple years ago, in talking to the folks at Nassau OTB, which is the first county out of New York City, out on the Island, 20 percent of Nassau County's phone customers lived in New York City. You can draw your own conclusions, but it certainly violates the concepts of geographical borders. And then in 2007, Internet wagering was approved for New York entities. This really ultimately removed all the geographic boundaries. Unfortunately we were a little late to the party. Just ask BrisBET, AmericaTAB, Youbet, Connecticut OTB, Philly Park, how many New York customers they had in their portfolio. So that business had long been seeded over. Anyone that wanted a phone account or an Internet account already had one.

So what do we go going forward? Here's what we have now; it is a real source of inefficiency and cost. We have seven individual tote contracts, and that is just between the OTBs and NYRA, there are eight other harness tracks that probably fall in that same category. There are five separate phone account wagering operations among NYRA and the six OTBs. There are four separate Internet account wagering platforms and there is a tremendous amount of duplication between legal, IT, HR and marketing. So what do we do about that?

The OTBs, people that run it, they didn't invent this process, this is not their creation and it is not their fault that we are in the situation that we are today. They are being compelled because one of the things that OTB was meant to do was generate money for the communities; from 2001 to 2006, the monies to the communities from the OTB network went from $96 million down to $52 million. So their board of directors are pounding on them, where is the money? How do we get these resources back?

So I think the combination of the state taking over the City OTB, which represents about $1 billion in handle, about half of the OTB system network, and the issues at the community level create a strong stimulus and a force to get us to work together to solve some problems.

So what would that look like? Well, we would keep the regional OTBs as the retail base because they are in the community, they have community support people, it makes a lot of sense to do that and we can maintain some of the infrastructure we have. Obviously, we will have to strip out at the track level and at the OTB level certain levels of redundancy that I spoke of a minute ago. Hopefully we would have one statewide tote vendor, one statewide account wagering platform, one statewide television strategy. I can tell you there is no agreement on how we are going to get there but there is complete recognition among all the OTBs and Rich Bennett, from Nassau is in the room today and he can tell you that. We don't know how we are going to do it, we know we need to do it and we're going to get it done.

Increased profitability means more return for the state, the communities and the racing industry. One of my goals is having the OTB pay back to the people who are running live races more money than they are currently getting.

Finally, I think NYRA is extremely well positioned for the future. For the last five years we have been in the toilet. It has been a really difficult time. As Joe said, we were bankrupt, we had a federal monitor, they were taking our clerk of scales out of the building. The rest of the economy seemed to be doing well. Well, the general economy is in the toilet now but fortunately for ourselves, I think we're in a position to really go forward. We have a 25-year franchise with a rational financial basis. I think we have a very strong management team, both with some of the existing people that have been there as well as some people we've hired. We have the capital resources to invest in infrastructure and racing facilities. We have a really strong racing program, 113 graded stakes, 40 Grade Ones, 41 Grade Twos, 32 Grade Threes, the highest purse structure in the country. I haven't spoken about it, but a major technology initiative — we were way behind the curve in terms of technology. We are still way behind the curve, but we're catching up thanks to The Jockey Club, InCompass and some other things. And finally, hopefully within the next couple years we get a restructured racetrack and OTB model.

As I said, it has been very difficult for the last seven or eight years, but I think right now we have a huge opportunity. We are not going to be overly cautious. We're going to make bold, innovative moves to help the racing shareholders and stakeholders in New York and throughout the country. Let's join together and embrace the future of thoroughbred racing. Thanks very much.

(Applause)

MR. HARPER: Thank you very much, Charlie. It's really heartening to see NYRA has been such the big, granddaddy of us all in racing, we always looked up growing as a kid, the Big Apple was the Big Apple because of New York Racing Association. I'm just so delighted to see the foresight that you and your team have put in to this thing. I really look forward to seeing it all come to fruition. I don't think you could be at a better track.

I'm sure there might be some questions out there. If anybody has any, please, now is the time to ask us what non-profits really do, make money, think of new ways to invest it.

I've got one question for you, Harvie. You have an impressive list, but I never saw a time frame on implementing it. Have you got one of those and cost estimates yet?

MR. WILKINSON: If I told you I would have to shoot you. I can't tell you the cost estimates.

No, we don't have any specific timeframe. We've needed a master plan for many, many years. Keeneland has always grown, a lot of people don't realize that but we've grown in small increments and it's time to have a master plan that can carry us out 20 years. It may take 20 years to complete it, it may take 10. There are a lot of things that need to come into play that I really can't get into today that could shorten up that timeframe. Right now, today, we have no specific timeframe.

And on the price I can just say that it is expensive. Anybody knows that, anytime you get involved in technology or sports facilities it is expensive.

MR. HARPER: You know, I was thinking of those $100,000 a piece HD cameras, so we run in July, August, you're not running, they are just sitting there.

MR. WILKINSON: We can do a deal. In fact, I have no shame. If anybody wants to lease our 10 cameras, see me after the meeting. I'll buy you a beer.

MR. HARPER: Hey wait a minute, I was here first.

A VOICE: Do non-profits have any guidance specifically from a non-profit perspective on account wagering?

MR. HAYWARD: Well, you are really getting into dangerous waters in terms of what I could assert. On the account wagering side, I think there were two things that were unfortunate when we got started. One was that we treated them as a regular simulcasts, give me the three percent and I will send you my signal. And the second thing, if the industry had been forward thinking in the way that they were about Equibase, I think that you could have had a business model. We had an infrastructure that got paid for by the people that provided the product and that they got the return based on their take-out rates or whatever and that would have driven us to lower take-out rates and we would have had a much healthier business. If we start this conversation, I am probably going to get killed and we will never have a drink. So all I will say is I think the solution that is being asserted by the horsemen's association under the THG, I would just have to say that it is a flawed solution. It is really not the question that you asked. Pick up a Racing Form and check Calder purses. Think back to what Calder was paying in purses a couple years ago. It would be hard for someone to argue to me that that has been a good outcome.

MR. HARPER: I do think, to your point, without getting into the ADW thing, I do think that the not-for-profit or non-profit, non-dividend paying racing associations do have a leg up simply by not having to worry too much about the Street or worry about making quarterly numbers and that type of thing. I look at it also as, here we are, Charlie is owned by New York, the land. We are owned by California. Keeneland has got some deal cooking up that makes them a lot of money in a non-dividend paying way. I look at some of the returns on investments of some of these real estate things and I — I made a promise not to mention this economy because I don't think that it's relevant in the long-term scheme of things — I think that when you are sitting in California and you've paid $300 million for a racetrack that is making $7 million a year, you're going to do something else with that racetrack. If you're sitting in a racetrack that is owned by the State of California, making $7 million a year, you can take that $7 million and put it back in the facility and make it better. I think that is what gives us a leg up on a lot of other places. Bay Meadows is gone, Hollywood Park is going probably within a couple years. I think that they are going because they can't get a return on the investment. The old families that owned racetracks for years, they could keep it going because their investment was very small. Now that has changed. The scary thing is, I look at a place like Santa Anita with the troubles that Magna's had and how much value that land is, I'm trying to figure out a way for the State of California to write Frank a check, but I'm not sure they've got any money left to do that. But I think that we will keep a lot of these facilities that we've grown to like and go to, still in operation if there is some type of a not-for-profit structure that they can see fit to get into.

Any other questions? We've answered all of them?

A VOICE: I have one more. I know recently that Belmont Park has made a benefit like Anna's House for backstretch children. Is NYRA going to make anymore significant changes to the racetrack layout or benefits for the backstretch workers? Anything like that?

MR. HAYWARD: Yes. When we were bankrupt and broke, we were still actually — we are the only racing circuit in the country, and all of the other tracks are going to be pissed off for me saying this, we're the only racetrack that pays healthcare for backstretch workers. It costs us about $1.2 million a year. We're making the improvements in the facilities that I mentioned. Our horsemen's association that I mentioned earlier is very involved in benevolent activities. The other thing that we're doing that is part of the backstretch is that we never had anybody who was running community affairs in the three tracks. At Saratoga we had a good relationship, the other two tracks it didn't really exist. We're getting them more involved in our activities and instead of seeing the backstretch as sort of a blight on their community, they are starting to understand some of the dynamics of it and have a better appreciation. The child development center than you mentioned is a perfect example of that. We probably will eventually end up setting up a 501c, or whatever it is called, foundation that NYRA will administer for charitable purposes.

This is actually another good point. We wrote a check for RMTC a while ago and we have to write them another check for $50,000, total $100,000 this year. I think if you went and looked at the racetracks that contributed to RMTC, I think you will see a strong correlation between those people that are not-for-profits and those people that are for-profits. And again, I think it's very difficult for the for-profits to justify to its owners or its shareholders why they would be paying in the near term that money to the RMTC.

MR. HARPER: Anyone else out there?

MR. ROY ARNOLD: One of the things we start with — first of all, I'm from Arlington, Churchill, and of course we contribute to RMTC and we are for-profit. One of the things that it appears as we talk through the NTRA safety alliance issues, as we look at medication issues, I was talking to several of the commissioners here, we have a business which in the day was a very localized monopoly. Our regulatory structures and your non-profit structures evolved in that isolated, state-defined marketplace, and in many cases not only state defined but defined by municipality. That is clearly not the case now. One of our struggles is, as we are seeing in ADW, is the fact that there is a desire to hearken back to having a pricing structure which is locally based when in fact pricing structure is very much effected by the national marketplace. There are differentials in volume, regulatory control which allows one state to say only 21 programs can be imported into the state. Others where there is restriction on who can operate an ADW platform. So there are a lot of local, regulatory frameworks which inform your various non-profits, and the question that I had is that as we see things like the purse imbalance between the New York jurisdiction and other jurisdictions that do not have a non-profit structure within their state system, do we place the industry at risk?

I would just be interested because I think most of you probably just got a TRA study having to do with purses across the industry, I think we're going to talk about it tomorrow a little bit. It is very clear that there is a lot of changes occurring and projected to occur relative to traditional racing jurisdictions with very good traditions which are at extreme risk of survival. And the question is, have you thought about this? The question is, can you isolate yourself in terms of your business model, talking about what you are going to do with $150 million of purse money or Pennsylvania with projected $190 million purse money and not look at what that potentially means to the national marketplace?

In my view, I think you mentioned with the ADW market, that is a mature market, much more so than I think most people want to believe. If we have tracks go out of business, my belief is that there is no need for people to necessarily continue to follow thoroughbred racing if their local track is no longer in existence and that then affects the viability of your programs because here again, you need a national market to support your program.

So I'm just interested in your unique perspectives as leaders in non-profits, but non-profits within a larger industry structure, of how you play on behalf of the industry as a whole or if you see a role for yourself in that.

MR. HAYWARD: I think the issue in regards to answering that question in terms of quality of racing really cuts, not so much about non-profits and for-profits but really for the jurisdictions that have good racing programs, which Churchill has a number of those tracks. This is going to be radical and probably problematic for me. I think the reality is that if we had had a proper simulcast model when simulcast was introduced, you might have 15 fewer tracks today. Mr. Stronach probably wouldn't have bought Portland Meadows, he probably wouldn't have bought Great Lakes Downs. I don't think that one could construct an argument that those tracks best serve the interest of the local customer on wagering on Churchill or NYRA or whatever. So I think you have to parse the question a little bit, parse the argument where what is the sustainability of the industry and don't we want to sustain a better quality of racing? I mean, I was looking at Portland Meadows yesterday, $3,200 claimers running for $4,000 in mud. I don't mean to disparage Portland Meadows, but is that the face of racing, and does that encourage new customers or not? When we talk about a reset of simulcast prices, there are winners and losers in that. If we can't reset those prices I think the sustainability of our program, because I think the VLTs are going to go away, is not going to be great.

And then with a weakened New York, a weakened Churchill or weakened Arlington, then the whole business is at jeopardy. So I think it is really not about focusing on the not-for-profit, although we have a leg up in some of those discussions, it's really focusing on the quality and the sustainability of live racing, quality racing. ADWs are great, I have a couple ADW accounts, but you are not going to build new customers with ADWs. Your track is probably one of the best tracks in the country for developing new fans, the family things that you do, the nature of your facility, the efforts that you guys make marketing, I think it is exemplary for the industry. So I don't think that it cuts down profit versus not-for-profit, I really think the sustainability of quality racing should really be our first focus.

MR. WILKINSON: I agree with what Charlie said. I don't think the issue is not-for-profit versus profit. I think there are a lot of things that go into play and I think we need a major readjustment of the whole simulcast pricing model. I think that it is totally upside down. I think that when it was instituted many, many years ago, people thought of it as found money. They would say, if I can get three percent for found money, great. Well, 80-plus percent of the money now comes from that revenue stream and you need to reevaluate how you price it. There are things in play in the past five or six years that will change greatly. The purse structure, Charlie just discussed it, VLTs, as Pennsylvania, New York and other states, West Virginia, Indiana pass it, you immediately have a bounce in purses. In most instances that is a good thing, but what about the states that don't pass VLTs? What can we do to compete? Well, there are a number of things, Keeneland is a little bit unique, we have a sales company that helps supplement purses. Churchill Downs doesn't have a sales company. Churchill Downs and the other racetracks in Kentucky have to stand or fall on their own. It is an issue that we all need to address. We need to develop a pricing model; I can't say what it is but it is a win-win-win with the racetrack and the guest site and the customer and the horsemen. If you don't have something that is in balance then over time it is going to weaken and will fail. I don't have any answers but I don't think that it is a profit versus non-profit issue.

MR. HARPER: I have to go along with these two guys. I think that it is probably, that not-profit, profit thing is sometimes easier to get things done but I think in this case, and what you're talking about, it really involves the right kind of negotiated solution with ADW on a nationwide basis, not just picking us off here and there. I think that it is really important that we do this because we are more interrelated now than we ever have been, and we have just upped the number of imports we can take in California now. I think that we really have to get contracts out there that work for all of us as some kind of a mutual compact.

It's getting late folks. The bar has been open for about 40 minutes, so thank you very much. Have fun.

(Applause)