

NATIONAL COUNCIL OF LEGISLATORS FROM GAMING STATES  
COMMITTEE ON PARI-MUTUELS  
SCOTTSDALE, ARIZONA  
FRIDAY, JANUARY 9, 2009  
MINUTES

The Committee on Pari-Mutuels of the National Council of Legislators from Gaming States (NCLGS) met at the Hotel Valley Ho in Scottsdale, Arizona, on Friday, January 9, 2009, at 10:30 a.m.

Representative John Viola from Delaware, Chair of the Committee, presided.

Other members of the Committee present were:

Rep. James Buskey, AL  
Rep. Kevin Ryan, CT  
Rep. Helene Keeley, DE  
Rep. Bill Oberle, DE

Other legislators present were:

Rep. H. Mac Gipson, AL  
Rep. Pebblin Warren, AL  
Sen. Tom Harman, CA  
Rep. David Norquist, MS  
Sen. John Sparks, OK

Others present were:

Susan Nolan, Nolan Associates, NCLGS Executive Director  
Nicholas Brozean, Nolan Associates, NCLGS Assistant Legislative Coordinator

#### MINUTES

The Committee voted unanimously to accept, as submitted, the minutes of its June 13, 2008, meeting in Napa, California.

#### INDEPENDENT MONITORING SYSTEM

Isidore Sobkowski, president and CEO of the Advanced Monitoring Systems, said increasing the integrity of thoroughbred racing will produce more players and greater handle within the states. He said large bettors have concerns about racing integrity and believe little progress has been made to improve racing integrity.

Mr. Sobkowski said that certain folks in the federal government believe that online casino wagering lacks integrity and impacts homeland security, as online wagering permits the financing of terrorists. He said the New York Stock Exchange uses independent monitoring to catch insider trading.

Mr. Sobkowski said many people consider thoroughbred racing to be a \$16 billion unregulated bank that enables money laundering and terror financing. He said the federal government will take control of racing integrity if the pari-mutuel industry cannot correct the security issues.

Mr. Sobkowski said efficient racing integrity involves continuous monitoring and auditing. He said it is necessary to audit every financial transaction on and off the track, as well as to monitor inappropriate patterns or potential attempts to launder money and commit fraud at racetracks.

Mr. Sobkowski said many companies are using independent monitoring and auditing to comply with the U.S. Patriot Act, Foreign Corrupt Practices Act, and the Sarbanes-Oxley Act. He said independent monitoring and auditing systems are readily available for the pari-mutuel industry.

Mr. Sobkowski said an independent real-time transactional monitoring system examines actual events as they occur by another company that is not affiliated with the pari-mutuel facility. He said New York State has mandated an independent real-time transactional monitoring system for regulators to verify specific events as of January 1, 2009.

Mr. Sobkowski said every pari-mutuel business relationship that occurs needs real-time monitoring and audit functionality for tax payments, breeder's funds, purse accounts, and open pools, as well as financial controls to ensure efficient jurisdictional reporting. He said an independent real-time monitoring system provides proper payments to all stakeholders and reassures the state, racing entity, and bettor.

Mr. Sobkowski said key indications of betting manipulation using real-time monitoring include unusually high rates of return with a robotic wagering system, canceling transactions after the wagering period ends, past posting, canceling transactions that change win pool odds or payouts, collusion among players, race fixing, high wagers due to insider information, and several random pick wager validations by tote companies.

Mr. Sobkowski said independent monitoring is also used in casinos to guarantee federal guidelines, such as suspicious activity reporting, national reporting for Title 31, and watching for fraudulent check cashing.

In response to a question from Rep. Bill Oberle regarding common wagers that evidence betting manipulation within pari-mutuel racing, Mr. Sobkowski said any form of large wager might identify an unusual activity or potential money laundering event.

In response to a question from Sen. Tom Harman regarding the cost of real-time monitoring, Mr. Sobkowski said studies done by the National Thoroughbred Racing Association (NTRA) show that effective monitoring will cost between \$5 to \$6 million dollars annually, which is 0.0004 percent of current handle. He said IBM did a study for the NTRA about 6 years ago suggesting that monitoring costs through IBM would be nearly \$50 million annually.

In response to a follow-up question from Rep. Bill Oberle regarding the impact of money laundering and race fixing in the pari-mutuel industry, Mr. Sobkowski said both money laundering and race fixing impact the bettor equally, as they affect the odds of the race, payouts,

and player confidence levels. He said the gaming industry is the only industry that does not provide efficient systems monitoring, but would benefit every party from administering real-time monitoring.

#### RACING INTEGRITY AND INDEPENDENT WAGERING SECURITY

Ed Martin, president of the Association of Racing Commissioners International (RCI), said New York is working with the industry regarding concerns relating to wagering security and facilitation of independently monitoring wagering pools. He said the California Horse Racing Board (CHRB) is currently looking at the integrity issue in response to criticism about the state's lack of an independent monitoring system.

Mr. Martin said Kentucky is attempting to get state money to independently monitor their wagering pools, which is unlikely given the current economy. He said a question usually arises regarding whose responsibility it is to fund wagering security or drug testing when discussing racing regulation. He said common arguments are that the participants in the race benefit from drug testing and the bettors benefit from independent monitoring. He said in Canada, funding for independent monitoring comes from the handle.

Mr. Martin said the wagering public ultimately benefits from knowing bets are secure and nobody is manipulating pools. He said bettors have come forward admitting to being able to bet past-post on races receiving private monitoring from companies that have state authorization to police betting activity and safeguard the public while regulators remain in the dark over such issues.

Mr. Martin said RCI believes in the implementation of responsible independent intelligence at the time a problem arises in wagering pools. He said RCI hears concerns from some members regarding the lack of industry support.

#### HORSE SAFETY AND MEDICATION ISSUES

Mr. Martin said it is necessary to develop a new funding model for racing commissions. He said racing commissions across the country are challenged to complete essential tasks given their tight budgets. He said medication and drug testing are costly, but do create jobs.

Mr. Martin said a person willing to drug a horse is looking to make money betting and not trying to make money off the purse. He said wagering monitoring and policing the use of illegal drugs in pari-mutuel racing go hand-in-hand.

Mr. Martin said some jurisdictions are discussing the concept of an interstate compact to adequately govern and regulate the pari-mutuel industry. He said an interstate compact would reduce redundancy across state racing commissions, reduce costs, and make pari-mutuel racing in smaller states more viable.

Mr. Martin said an opportunity exists for NCLGS to work with state racing commissions and RCI to discuss the possibility of implementing an interstate compact. He said NTRA research suggests that concerns over integrity are causing people to withdraw from wagering. He said

many backstretch workers risk losing their jobs due to integrity issues and do not have other employment options.

Mr. Martin said the pari-mutuel industry will continue to decline if funding mechanisms for state racing commissions are not reassessed. He said the Canadian Pari-Mutuel Agency, a federal government agency in Canada, receives funding by an assessment of 0.0008 percent from handle. He said state racing commissions could fund racing integrity using a similar assessment taken from handle.

Mr. Martin said if the United States undertook a similar model to the Canadian model, the pari-mutuel industry could double the amount of money spent on drug testing, fund a governmental wagering security monitoring and investigation entity, as well as fund a cross-jurisdictional investigative agency, and have extra money for equine health and welfare research.

In response to a question from Rep. Bill Oberle regarding state v. federal regulation, Mr. Martin said racing regulation and wagering audit should remain a state function. He said an interstate compact would help produce uniformity and reduce costs among state racing commissions, such as with promulgating rules.

#### INCREASING IMPORTANCE OF MODEL RULES

Steve Barham, associate coordinator of the University of Arizona (UA) Race Track Industry Program (RTIP), said over the last several years national attention over racing integrity has grown. He said the public and the federal government are looking for uniformity on numerous issues, including tote and pool security, animal welfare (toe grabs, steroids, and legal medications), and trainer qualifications.

Mr. Barham said the federal government can expand upon the Interstate Horse Racing Act to bring about uniformity within the pari-mutuel industry. He said roughly 80 percent of racetrack wagers occur across states' borders. Mr. Barham said state racing commissions can work together to implement uniform or model rules before the federal government decides to intervene.

Mr. Barham said many state racing commissions are meeting formally on a regular basis and in a formal format to ensure due process. He said all interested parties are in attendance at these committee style meetings or hearings, including regulators, horsemen, owners, and breeders. He said racing commissions from both big and small states are able to establish a consensus and work toward uniformity.

Mr. Barham said in the future, expansion of the National Racing License with an interstate compact could include uniform rules, as well as licensing. He said some states are currently using model rules to enact initial rules for new state issues.

Mr. Barham said legislators need to be aware that people do not accept changes to the old rules well and therefore uniformity and model rules tend to receive criticism from all affected individuals. He said implementation of new rules tends to go smoother, as individuals are looking for ways to fix the pari-mutuel issues. Mr. Barham said states should also use the model

rules as a resource to fix problems that occur on a case-by-case basis. He said it is beneficial for all state regulators to attend meetings concerning uniformity and model rules.

#### UA STUDY REGARDING RACINO LEGISLATION

Steve May, graduate student of the UA RTIP, said the RTIP in conjunction with the Harness Tracks of America is working on a project to compile a baseline collection of all racino legislation passed in each state, as well as any documents relating to the legislation. He said the RTIP hopes to make this information available to the public on the RTIP Web site.

Mr. May said the Racino Legislation Analysis Project will not only be a tool for legislators and individuals within the pari-mutuel industry, but as a resource for RTIP students and future projects.

Mr. May said the RTIP is experiencing difficulty obtaining documents and identifying proper sources or contacts for obtaining such documents. He said it is necessary for NCLGS, legislators, and the industry to work together on the Racino Legislation Analysis Project to ensure its success and future benefits.

Mr. May said the Racino Legislation Analysis Project will include historical trends in racinos, an analysis of the effects of racinos on the pari-mutuel racing industry, as well as racino statute organization and analysis. He said the RTIP is also looking to NCLGS and legislators for suggestions on the Racino Legislation Analysis Project and future projects.

#### STATE GREYHOUND RACING INITIATIVES

Tracy Wildey, vice president of the National Greyhound Association (NGA), said the issues that impact the NGA are not only economic issues, but also welfare issues, specifically the adoption of greyhounds.

Ms. Wildey said greyhound racing receives much disapproval from GREY2K. She said GREY2K plans to push for the outlawing of greyhound racing in New Hampshire over the next year, as they did in Massachusetts.

Ms. Wildey said greyhound tracks have recently closed in Colorado and Kansas. She said several states, such as New Hampshire and Texas, are looking to pass VLT legislation for pari-mutuel racing, which could help save greyhound tracks within those states.

Ms. Wildey said Iowa, West Virginia, and Arkansas, as well as Macon County, Alabama are working toward racino legislation or similar efforts to save greyhound racing.

Ms. Wildey said the pari-mutuel racing industry is not the only industry to have welfare issues. She said the overall affect of discontinuing greyhound racing based on economic and welfare issues needs to be thought about before it is too late to revive the industry.

#### ADJOURNMENT

There being no further business, the meeting adjourned at 11:45 a.m.