

NATIONAL COUNCIL OF LEGISLATORS FROM GAMING STATES
COMMITTEE ON PARI-MUTUELS
LAS VEGAS, NEVADA
FRIDAY, JUNE 8, 2007
DRAFT MINUTES

The Committee on Pari-Mutuels of the National Council of Legislators from Gaming States (NCLGS) met at the Rio All-Suite Hotel & Casino in Las Vegas, Nevada, on Friday, June 8, 2007, at 11:00 a.m.

Representative Vincent Lofink from Delaware, Chair of the Committee, presided.

Other members of the Committee present were:

Rep. James Buskey, AL
Rep. Bill Oberle, DE
Rep. Pamela Thornburg, DE
Rep. John Viola, DE
Sen. Steven Geller, FL
Sen. Richard Lerblance, OK
Rep. Christopher Sainato, PA
Rep. Tim Solobay, PA

Other legislators present were:

Rep. Charles Ormond, AR
Rep. Mark Desimone, AZ
Sen. Tom Harman, CA
Rep. Nancy Wagner, DE
Rep. Carlos Lopez-Cantera, FL
Rep. David Rivera, FL
Rep. Trent Van Haaften, IN
Sen. Pete Brungardt, KS
Rep. Steve Huebert, KS
Rep. Arlen Siegfried, KS
Rep. Tom Burch, KY
Rep. Debra Plowman, ME
Rep. Lois Delmore, ND
Sen. Ben Altamirano, NM
Rep. Daylin Leach, PA
Rep. Ronald Waters, PA

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 January 12, 2007, meeting in Duck Key, Florida.

ASSOCIATION OF RACING COMMISSIONERS INTERNATIONAL (RCI) INTEGRITY SYSTEM

Paul Bowlinger, executive vice-president of the Association of Racing Commissioners International (RCI), said the Association of Racing Commissioners International (RCI) pari-mutuel wagering integrity system is functional and has been tested. He said RCI has its first contracted client signed and is planning to begin monitoring by the end of June. He said the integrity system is up and running, but RCI is having trouble obtaining clients.

Mr. Bowlinger said the U.S. racing industry is in need of an independent, ubiquitous real-time monitoring system. He said the pari-mutuel tote system places all wagers on and off the track. He said after a wager is placed, the bet bounces through a series of electric hubs to the track, and the information is then calculated and fed back to display the odds. Mr. Bowlinger said presently the tote system is not being monitored through any electronic gaming component. He said the system is the only form of gambling in the U.S. that is not electronically monitored.

Mr. Bowlinger said RCI is the trade organization representing all jurisdictions. He said any state that has a racing commission is a member of RCI. He said RCI instituted a tote monitoring system after it was mandated by its members. He said the RCI integrity system is in place and was supported by the NCLGS Executive Committee at the last NCLGS Winter Meeting.

Mr. Bowlinger said prior to building the system, RCI approached the industry for support, but was rebuffed. He said launching the integrity system was crucial. He said RCI believes the industry objected to the system because the data is a transmission of wagering info that is proprietary. He said the industry will not support the system because the industry is not legally required to have a monitoring system and does not want to provide what it considers unnecessary funding. He said without an integrity system, the industry provides the appearance of an integrity system without the reality of the system.

Mr. Bowlinger said RCI is beginning to draft rules requiring the independent, ubiquitous real-time monitoring system. He said legislatures in each state will need to compel their racing commissioners to get the rules requiring independent monitoring passed.

Mr. Bowlinger said in pari-mutuel wagering a bettor bets against another bettor, rather than against the house, and tracks take money on the gross handle. He said presently tracks have a disincentive to monitor wagering because monitoring will decrease the handle and the revenue the tracks receive. He noted that cheating will affect the average bettor, whereas the bigger players will be able to manipulate the system and win.

Mr. Bowlinger said individuals who feel they are being cheated by the industry will not complain, but will stop betting. He said RCI hopes tracks will realize the industry is being compromised before bettors and revenue are lost.

In response to a question by Rep. Oberle, Mr. Bowlinger said state racing commissions are mandated to monitor tracks by performing backstretch security, drug testing, etc. He said the Thoroughbred Racing Protective Bureau (TRPB) and the Standardbred Investigative Services (SIS), an internal subdivision of the TRPB, are private security firms that perform policing.

In response to a follow-up question from Rep. Oberle indications of fraud, Mr. Bowlinger said the independent monitoring system looks for spikes or aberrations in betting patterns.

REBATE SHOPS

Mr. Bowlinger, said a rebate shop or a secondary pari-mutuel organization (SPMO) is independent of the track or an off-track betting (OTB) parlor that can take wagers and contract with racetracks to sell the signal and transact data and wagers.

Mr. Bowlinger said SPMOs conduct wagers through rebating. He said racetracks usually keep about 20 percent of in-house wagers placed at a racetrack. He said racetracks only charge rebate shops three to four percent on wagers, which leaves about 16 to 17 percent profit for rebate shops. He said rebate shops agree to give bettors back a percentage of their bets as an incentive to place bets through SPMOs, in effect increasing monetized revenue.

Mr. Bowlinger said, as established in the Unlawful Internet Gambling Enforcement Act (UIGEA) Section 6, “It is the sense of Congress that this act does not change which activities related to horse racing may or may not be allowed under federal law.” He said Section 5 states, “It is intended to address concerns that this act could have the effect of changing the existing relationship before the Interstate Horse Racing Act, which makes horse racing legal and other federal statutes that were in effect at the time of this act’s consideration. This act is not intended to change that relation and this act is not intended to resolve any existing disagreements over how to interpret the Interstate Horse Racing Act and other federal statutes.”

Mr. Bowlinger said, upon interpretation, the gaming prohibition act will have no effect on the Interstate Horse Racing Act however the law is always open to further interpretation.

SIMULCAST ECONOMICS/CURRENT AND FUTURE

Steve Barham, associate coordinator for the Racetrack Industry Program, said simulcast economics is the ability to get money for the product. He said in pari-mutuel racing the handle is not as important as the money obtained from the handle.

Mr. Barham said in the past there were only racetracks and wagering publics. He said racetracks produced the content or broadcast, and the product. He said the 20 percent of wagers that racetracks take is split with a percentage going to the state, track, and purses.

Mr. Barham said after time tracks decided to have simulcast and interstate wagering. He said the racetrack sends the content to a guest track, which relays it to the wagering public.

Mr. Barham said simulcast racing gives host tracks the ability to make money where it was not previously possible by collecting lost revenue from other wagering publics.

Mr. Barham said racetracks now have secondary pari-mutuel organizations or SPMOs that can access all wagering publics without barriers. He said the content flows from a racetrack to the SPMO and then to the wagering public. He said SPMOs receive 20 percent of the wagers to be divided between the state, SPMO, and host track.

Mr. Barham said SPMOs rid the guest track barrier between host tracks and the wagering public. He said host tracks lose revenue from SPMOs that would have been split by the track, host track, state, and purses. He said the SPMOs take a larger cut and use the cut to offer rebates back to the wagering public, as revenue does not need to be dispersed for purses.

Mr. Barham said SPMO activity has changed at least some nine and a half percent monetized handle that host tracks once received from the wagering public to three and a half percent monetized handle. He said if a dollar is taken from a SPMO host track a 271 percent increase in revenue is seen from that dollar.

JOINT VENTURES TO REDEFINE SIMULCAST ECONOMICS

Scott Daruty, CEO of TrackNet Media, said TrackNet Media is a new company that was formed about three months ago by two of the biggest racetracks in the country, Magna Entertainment Corp. and Churchill Downs. He said TrackNet was formed to sell off-track wagering rights of the company's 18 racetracks. He said TrackNet will disperse signals around the globe.

Mr. Daruty said revenues and attendance at racetracks have been declining over the years. He said it is common to see racetracks go out of business because the property the track is on is more valuable than the racing business operated on it. He said Magna and Churchill are the most invested racetracks in the country, having several billion dollars in racetracks. Mr. Daruty said TrackNet is setup to fix some of the problems involved in simulcast economics.

Mr. Daruty said TrackNet has four categories of signal receiving locations, which include domestic account wagering companies, rebaters, casinos, and other racetracks.

Mr. Daruty said domestic account wagering companies take wagers legally by phone or internet from various jurisdictions. He said rebaters take wagers primarily via phone, but also via internet and have players internationally and throughout the country. He said rebaters are different from domestic account wagering companies, as they have been given a better economic situation, which enables rebaters to give a percentage of a wager back to the fans.

Mr. Daruty said casinos receive a racing signal from tracks, but do not support the pari-mutuel industry. He said racetracks are a large purchaser of other racetrack signals.

Mr. Daruty said TrackNet has developed a strategy to approach the economic model of broadcasting in each of the four signal receiving groups. He said the simulcast model for racetrack to racetrack economics does not need to be changed, as money is properly allocated and stays within the industry.

Mr. Daruty said account wagering companies initially paid a host fee of three and a half percent, which is too low for companies that take 20 percent from wagers and generally only require

computer technology. He said TrackNet believes the host fee should be between five and eight percent and a seven percent fee should also be paid into the source market. Mr. Daruty said a source market is an area close enough to the racetrack for a bettor to attend. He said if account wagering companies provided fees to the host track and source markets, more money would be provided to the industry and account wagering would still receive between five and eight percent.

Mr. Daruty said rebaters represent about ten percent of the industry handle. He said although some individuals might want to do away with rebaters, they provide a large amount of handle for the industry and therefore should be controlled. He said rebaters are necessary for larger players in the industry, as they are a form of player loyalty programs, however the industry does not want to lose bettors from racetracks to rebaters.

Mr. Daruty said TrackNet has developed a player size restriction with major rebate companies. He said TrackNet and large rebate companies agreed that in order for players to receive rebates on TrackNet contracts bettors would need to wager at least one million dollars a year. He said thus rebates will allow players wagering millions of dollars a year on TrackNet to be compensated.

Mr. Daruty said casinos should pay higher host fees for signals, as they do not contribute to the pari-mutuel industry. He said presently casinos only pay three and one-half to four percent in host fees, which is minimal.

Mr. Daruty said redefining simulcast economics is going to be hard since the industry has been developed for some time, but TrackNet believes that since it is comprised of some of the top racetracks and races in the country, it will enable its joint venture to accomplish its goals. He said TrackNet would like to work with RCI and others in order to maintain integrity within the pari-mutuel industry.

Sen. Geller said simulcast economics is in need of revisions and should be looked at further in a general session.

In response to Sen. Geller, Mr. Daruty said account wagering is legal in many jurisdictions where there is law permitting the wagers, but not in others. He said account wagering is important to the growth and health of the pari-mutuel racing industry, however the industry does not want to replace handle and not receive revenue. He said TrackNet wants to redefine simulcast economics in a controlled process where the market is generating new revenue.

Rep. Oberle said simulcast economics is a critical issue for racetracks and for the horsemen who participate. He said a symbiotic relationship exists between racetracks and horsemen.

EMPLOYEE WELFARE INITIATIVES

Barry Broad, national legislative director for the Jockeys' Guild, said the Jockeys' Guild is a union for jockeys. He said working conditions at racetracks are commonly ignored and the Jockeys' Guild has lobbied for economic, health, and welfare legislation. He said much attention and time has been devoted to horses, while the jockeys have been ignored.

Mr. Broad said on a federal level, Congressman Stupak (D-MI) and Congressman Whitfield (R-KY) introduced legislation to amend the Interstate Horse Racing Act and require more funding to be dispersed to racetrack employee welfare. He said the legislation would require that part of the money that track owners negotiate for track signals go to health insurance for jockeys and backstretch employees.

Mr. Broad said jockeys are independent contractors, with the exception of those in a few states, and cannot get health insurance because of the job hazards. He said jockeys are not covered by workers' compensation. He said most jockeys are among the working poor. He said the industry opposes legislation regarding jockey welfare because it would be further expenditure.

Mr. Broad said jockeys' rooms on most racetracks across the country have large amounts of lead, sometimes as much as 16,000 times the permissible level. He said California is the only state to introduce legislation regarding lead problems. He said the lead in the jockeys' rooms can get on clothing and be transported.

Mr. Broad said federal legislation is being considered, which has not yet been introduced, to cover the horse racing industry under the National Labor Relations Act.

Mr. Broad said in Kentucky, legislation to cover jockeys under workers' compensation was defeated. He said Illinois is debating increasing mount fees for jockeys.

Mr. Broad said in California a bill has been introduced to reauthorize advance deposit wagering and organize labor. He said the Jockeys' Guild wants to get pari-mutuel clerks jobs at hubs in Oregon or bring hubs back to California. He said pari-mutuel clerks are still losing jobs from advance deposit wagering even after being located to Oregon in an effort to minimize losses from California tax.

Mr. Broad said that in California, the Jockeys' Guild is asking for a retirement plan for jockeys. He said jockeys do not have a retirement system anywhere in the country. He said California jockeys receive health insurance from the state. He said California is also trying to get an increase in mount fees for jockeys. He said California has been debating passing legislation to take a percentage of money from tribal casinos and other industries to fund lost pari-mutuel revenue. He said the casino industry has hurt pari-mutuel wagering.

In response to a question from Rep. Solobay, Mr. Broad said jockeys have trouble obtaining health insurance because they have many preexisting conditions and are injured often. He said the amount of money needed to fund jockey health insurance is minimal compared to the revenue racetracks earn.

ADJOURNMENT

There being no further business, the meeting adjourned at 12:00 p.m.

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