

1 CHAIRPERSON JAMES: At this point in time I'd like to
2 open it up for questions from Commissioners, and also for
3 dialogue among yourselves.

4 Commissioner McCarthy.

5 COMMISSIONER MCCARTHY: Mr. Meeker, since you've been
6 deferred to a couple of times, you've achieved -- remaining
7 modest -- a certain status here. How many tracks does your
8 corporation own? You mentioned four at the --

9 MR. MEEKER: Four.

10 COMMISSIONER MCCARTHY: -- outset, but then you
11 mention four different states. Is it one track in each of those
12 state?

13 MR. MEEKER: No.

14 COMMISSIONER MCCARTHY: You mentioned Iowa, Delaware,
15 Kentucky and Indiana.

16 MR. MEEKER: No. I'm sorry. I --

17 COMMISSIONER MCCARTHY: So your four tracks are in
18 Kentucky and Indiana.

19 MR. MEEKER: Kentucky and Indiana.

20 COMMISSIONER MCCARTHY: And the other tracks that you
21 refer to, was that just for our general information?

22 MR. MEEKER: Yes, sir. Yes, sir.

23 COMMISSIONER MCCARTHY: All right. Are the four
24 tracks that you now manage, which of those four tracks does your
25 corporation seek permission from their state legislatures, either
26 Kentucky or Indiana, to allow casino-type gambling?

27 MR. MEEKER: Well, we don't --

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1 COMMISSIONER MCCARTHY: Pardon me. Slot machines
2 that emulate casino-type gambling.

3 MR. MEEKER: Right. We have pursued that slot
4 machine legislation, for lack of a better term, in both Indiana
5 and Kentucky. We've been supportive of both. I think depending
6 upon what happens -- Indiana is unique because Indiana has a
7 cross-subsidization right now between the river boat industry and
8 the horse racing industry. There was a public policy
9 determination made when they started both industries that the
10 river boats would subsidize the pari-mutuel industry or the
11 Thoroughbred industry through an admission tax cross-
12 subsidization. If that goes away then I think for Thoroughbred
13 and standard bred racing to proceed in Indiana they would need
14 alternative gaming forms.

15 In the State of Kentucky, clearly Ellis Park, which
16 is being threatened by two major casino boats down in that market
17 and has suffered, could logically participate with VLT's and be
18 successful. Churchill Downs, I'm still -- the issue's out on
19 that, because we have not -- the largest boat in the world is due
20 to arrive next summer -- excuse me, late winter next year, first
21 quarter in our market. And I'll tell you more about that later
22 on.

23 MR. MCCARTHY: Of the proposals that you're
24 supporting in either legislature, what's the wording? How much
25 of the profit would they devote to the purses?

26 MR. MEEKER: We don't have a firm bill, but we've
27 been working with the horsemen's group. For instance, in
28 Kentucky we share 54 percent of our net pari-mutuel revenue with

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1 the horsemen. We get less than 50 percent. And while I don't
2 want to negotiate in public right now, I would suggest to you
3 that the division of revenues would be something along the 50-50
4 line. We have always said, and we will continue to say, that
5 there has to be a clear-cut division of revenue in any
6 legislation and/or constitutional change that would protect
7 racing. And we also suggest a couple of other things. That is a
8 mandatory number of race days, and in some instances the number
9 of races. So an operator of a "track" under one of these
10 statutes would have to continue operating a given number of days
11 and given number of races. So that what was described by some as
12 just movement away from racing toward profitable venture, namely
13 the VLT's, would not occur.

14 MR. MCCARTHY: So do you have the same set of
15 investors in both Indiana and Kentucky; how different is the mid?

16 MR. MEEKER: Well, we have a 13 percent partner in
17 Indiana, but our corporation owns everything at Church. We are a
18 publicly traded company.

19 MR. MCCARTHY: So if you are successful in getting
20 slot machines that emulate casino gambling onto your tracks, then
21 your set of investors that own your corporations would make
22 approximately 50 percent of the net from the slot machines?

23 MR. MEEKER: No.

24 MR. MCCARTHY: How would it work?

25 MR. MEEKER: You would still have costs. You would
26 take on a gross level, you would divide it up 50-50, which is
27 typical in our industry right now. And right now in a normal
28 pari-mutuel configuration we -- the track gets about seven

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1 percent of the gross takeout, and the horsemen get 7.5. Out of
2 that seven percent though we have to pay for capital costs. We
3 have to pay for employees, et cetera.

4 MR. MCCARTHY: Now, you said -- I'm sorry.

5 MR. MEEKER: So I'm suggesting that same division of
6 revenues, gross revenues would be the same. In terms of bottom
7 line return that would be substantially less.

8 MR. MCCARTHY: Okay. You mentioned that your
9 enterprise is unlike some of the other testimony we've heard
10 about other racetracks, that yours are pretty profitable?

11 MR. MEEKER: Yes, sir, they are.

12 MR. MCCARTHY: So the idea of adding slots that
13 emulate casino conditions, that's just another profit center for
14 you?

15 MR. MEEKER: Well, certainly it would be, but again,
16 I'm not suggesting -- our point and the position of our company
17 has been this: One, we are a racing company, and that is our
18 business. And obviously Churchill Downs since 1875 has been in
19 that business. We're going to continue being in that business in
20 years to come.

21 MR. MCCARTHY: Sure, sure.

22 MR. MEEKER: And we are today, we think, the number
23 one racing company in the country. We're not going to do
24 anything that will adversely impact our position in the racing
25 industry.

26 MR. MCCARTHY: What does that mean? I'm sorry, I
27 don't understand.

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1 MR. MEEKER: Well, we're not going to turn into a
2 casino company. I mean, and we've stated that. If you look at
3 our Board of Directors, you can understand why. I mean, we, you
4 know, we're owned largely by people within the industry.

5 MR. MCCARTHY: Well, how do you define what would
6 turn you into a casino -- your words, "a casino-type industry"?
7 Would it be 25 percent of your total profit; what would it be?

8 MR. MEEKER: Well, having free- standing gaming
9 operations, investing in gaming --

10 MR. MCCARTHY: Well, we'll stay with the slot
11 machines that emulate casino-type gambling. Poker games,
12 roulette.

13 MR. MEEKER: Right.

14 MR. MCCARTHY: So what would constitute transforming
15 the character of your investment into something other than what
16 it has been historically, which is one of the most notable horse
17 racing entities in America? Would it be 25 percent of your
18 profit, or 35 percent, or --

19 MR. MEEKER: I don't know.

20 MR. MCCARTHY: Well, you talked about this among the
21 leadership of your corporation. Share with us what, how you
22 think about this.

23 MR. MEEKER: Well, what we think about it is this:
24 We view the introduction of VLT's as an opportunity to reach an
25 entirely new demographic, a younger demographic as a growth
26 component for the future. And right now you look at the racing
27 industry, there are some problems in terms of determining what
28 our growth component is going to be into the future. One of the

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1 critical things we have to do is reach this new younger
2 demographic. Clearly, and any study that the casino industry has
3 done, there is a demand sitting out there, particularly in the
4 southeast, a huge demand for gaming. And that demand resides
5 largely in a younger demographic. And what we propose to do is
6 taking the VLT, which is attractive to a younger demographic,
7 installing it on our facilities where we need it. And again, I
8 will caution you. We haven't made the absolute end all, be all
9 decision at Churchill Downs. But at some of our facilities which
10 are being threatened by other competitive forces installing those
11 operations there with the purpose of attracting new, a younger
12 demographic to those facilities which in turn -- and I think
13 there have been a couple of comments, and it may be by Mr. Horn
14 who mentioned that we don't have the day to suggest when this
15 will come about -- namely to take a VLT customer and introduce
16 him or her to the best gaming form we believe around, namely the
17 horse racing business and be able to draw them over. But at the
18 outset, I don't want to eliminate that opportunity by some, you
19 know, prohibition constitutionally or legislatively.

20 CHAIRPERSON JAMES: Thank you, Mr. Meeker.

21 Mr. Barrett, I was curious. I had to interrupt you
22 necessarily so that we could hear from the rest of our panel, but
23 I would like to come back and ask you to talk for just a little
24 bit about your views on compulsive gambling, particularly as it
25 relates to the racetrack.

26 MR. BARRETT: I'm sorry I didn't stop before. That's
27 the New Yorker in me. But at any rate, our California Council
28 With Problem Gambling has had little success in fund raising here

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1 in the state, and there is no legislation in regard to any kind
2 of funding or anything like that, which we're very concerned
3 about. The state lottery has not stepped forward in any fashion.
4 The casinos -- we've solicited 40 of them, only five have given
5 us a response. Two out of the three casinos here in San Diego
6 have made pledges, but the largest one has not gotten back to us.

7 I would just like to, you know, issue a challenge to
8 the gaming industry in general. The lottery, casino gambling,
9 the racetracks, to provide just a small, very small portion of
10 their profits to go towards problem gambling. I talked about a
11 one percent solution with the President of the Council, Tom
12 Tucker, last night, and I said well, you know, one percent of
13 their profits that's probably a real lot of money, but may if we
14 just asked for one-tenth, one-tenth of one percent of what the
15 industry profit is to go towards problem gambling that would
16 really help a great deal in solving some of the problems.

17 CHAIRPERSON JAMES: Commissioner Loescher.

18 COMMISSIONER LOESCHER: Yes. Thank you, Madam
19 Chairman.

20 I'd like to ask Mr. Meeker if -- you know, I'm
21 interested in your comments about youth. Youth being people
22 hopefully above 18 years of age, maybe to 30 years of age.
23 Hopefully not younger. You know, I'm a Native American and in --
24 you know, we're interested in culture as well, and the horse
25 racing industry has culture and traditions. The aspect of
26 intellectual reasoning in gaming, I think is an interesting
27 approach. Difference in one industry versus the other. But I'm
28 concerned about this business of interactive gaming on computers

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1 and TV sets in the homes of America, account gaming or Off-track
2 Betting, the same concepts. But, you know, when you look at the
3 sea of gaming, all the things cumulatively in gaming, all the
4 different types of gaming, I'm wondering about the issue of
5 gaming on the affects on youth and the culture of America as a
6 whole. This computer business takes people away from the horse
7 track, the environment, the experience, the so-called
8 intellectual experience. And I'm wondering if it's just becoming
9 about the money. The way your industry is going you're more
10 interested in increasing your revenues and in getting more
11 consumers involved, and it becomes more just gambling rather than
12 the horse racing culture and environment and industry. And is
13 there -- I'm concerned about your position on the Kyl Bill. I'm
14 not quite sure where you are on that, but that is the focus at
15 the moment. There may be many, many more bills in Congress
16 before it's over about this interactive gaming on the computers
17 and television. But how is your company and your industry going
18 to contribute to setting the parameters and the guidelines for
19 this interactive gaming on computers and the television in our
20 homes?

21 MR. MEEKER: Well, that's a pretty broad question. I
22 don't know where to start. First of all, the target market is
23 not the underage minor market. It is the mobile, the people --
24 the mobile market, the people that are spending money for
25 entertainment options.

26 In terms of using commerce, electronic commerce to
27 broaden our distribution system, when we first looked at the
28 opportunities available in the electronic area, specifically the

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1 Internet or cable, DBS, anything that will allow you to get into
2 the home, the question first we asked ourselves was the business
3 question. Does that make sense? And as you know, and I'm
4 speaking specifically for Churchill now, we have a huge capital,
5 imbedded capital base, in OTB operations in racetracks that over
6 the course of time we've moved our guests and customers around.
7 We've moved them from outside watching the races inside of our
8 tracks with television watching the televisions. Then we moved
9 them for convenience sake into an OTB environment, and now the
10 suggestion being we'll move them one more step into the home.
11 And that transition into the home causes problems on a business
12 standpoint because that is not the place that we want the
13 wagering activities to take place.

14 So when ODS approached us, as I put in my outline
15 there, is ODS approached us we informed them we would not be a
16 party to this introduction of a new signal into the home if the
17 sole purpose was to take -- make the final move, if you would, of
18 our guests into the home. What we wanted to do is to reach new
19 people in the home and use the entry into the home as a marketing
20 tool to market what we've got on the racetrack. And that's the
21 entire intent from Churchill's perspective. And if you see the
22 programming that we have designed for the in-home programming,
23 talk about and educate people about the horse. There is a gaming
24 component, no question about it, because that's part of our
25 business. But the primary interest that we have is developing
26 new customers, younger customers, who will ultimately find their
27 way onto our racetracks and enjoy the benefit of racing, and more
28 importantly invest in our business as owners of race horses. So

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1 that's the way we've approached that from the business point of
2 view.

3 Now, the next issue was the social issue. And the
4 social issue is the more problematic issue, and that is
5 consistent with our baseline philosophy of making sure that we do
6 the right thing. The question of entering into the home brings
7 up the minor issue, and it brings up the compulsive gaming issue.
8 And I think within the outline that I've given to you, you've
9 seen some of the things that we have planned in conjunction with
10 ODS. Cooling off periods where you can't open up an account and
11 wager on it immediately. You get one banking day before that can
12 occur. The minor issue, the investigation, use of PIN numbers,
13 and as technology continues as dynamic as it is, as it continues
14 to go there'll be other mechanisms that the Bill Gates of the
15 world will figure out in terms of protecting the home from, you
16 know, any abuses that anybody in commerce, be that individuals
17 involved in gaming or other forms of commerce might play in the
18 home.

19 CHAIRPERSON JAMES: Thank you, Mr. Meeker.
20 Commissioner Wilhelm.

21 COMMISSIONER WILHELM: I have a question for Mr.
22 Horn. You made the assertion that true advocates of horse racing
23 should be opponents of slot machines. And as we heard this
24 morning -- slot machines at tracks. As we heard this morning,
25 there are a number of prominent people in the pari-mutuel
26 industry who agree with you, and others who apparently do not.
27 You also made the observation in your testimony that collections
28 of slot machines by themselves don't produce very many jobs

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1 compared to either full-blown casinos or racetracks or other
2 forms of gambling. I would certainly agree with that. The video
3 truckstops in Louisiana, those types of collections of gaming
4 machines with nothing else do produce very few jobs, and they
5 tend to be in theory inferior jobs as well.

6 There are over 400 members of the Hotel and
7 Restaurant Employees Union from Southern California here this
8 morning, and they're here because they are concerned about the
9 impact of this Commission's recommendations on jobs in the pari-
10 mutuel industry and in the card club industry. The pari-mutuel
11 industry in California and in many other parts of the country is
12 heavily unionized, and the jobs tend to be decent jobs that
13 provide a decent wage and benefits. The new generation and
14 larger card club industry in the state of California, whose
15 growth was referred to earlier, is increasingly unionized. And
16 to the extent that it is, it also tends to provide liveable jobs
17 with decent benefits, which is why all of these folks are here.

18 You're certainly right with respect to the newer
19 installation of machines at racetracks such as in Delaware. Not
20 enough time's passed and the effort hasn't been made to assess
21 what the impact of those has been. Your chart on page 2 of your
22 testimony points out that in West Virginia and in Rhode Island
23 there are much older experiments. Well, they're not experiments
24 anymore. They're much older situations where the machines have
25 been installed at pari-mutuel operations. In your written
26 testimony on page 6 you talked about Lincoln Park in Rhode
27 Island. I remember negotiating labor contracts at Lincoln Park
28 in Rhode Island in the 1970's, and it was very shaky then. And

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1 your written testimony says "similarly at the Lincoln Park Dog
2 Track in Rhode Island the machines generated \$96.9 million in
3 gross revenues. For comparison, gross revenues from pari-mutuel
4 handle totalled just \$13.1 million in 1997". That I'm sure is
5 factual, but it doesn't address the question that you raise,
6 which is whether or not using Lincoln as an example -- and I only
7 picked it out because I happen to be personally familiar with it
8 -- whether anybody has studied in those older situations. The
9 question of whether or not those slot machines, which as I said I
10 agree with you, by themselves don't produce very many useful
11 jobs, whether they have served to preserve jobs in the pari-
12 mutuel industry or not.

13 MR. HORN: I don't think that there have been any
14 studies. They are situations which lend themselves to the
15 general discussion of cannibalization of business. That is the
16 money that's spent at Lincoln Park is money that's not spent
17 somewhere else. The person putting money in the slot machine is
18 not putting that money in the local retail store or restaurant.
19 So, you know, I think an economist would tell you that somebody's
20 losing a job somewhere in that market because the money is spent
21 at the slot machine and not at the restaurant. But, you know,
22 how much is a difficult thing to study, and it has not been
23 studied because the state -- it hasn't been in their interest to
24 do so.

25 MR. WILHELM: Well, I don't want to be argumentative,
26 Mr. Horn, but I wasn't really asking you about the substitution
27 theory. That's a whole other question. The theory that if
28 somebody spends a dollar in gaming entertainment, you know, they

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1 would have spent it somewhere else, if you apply that logic to
2 every form of economic endeavor nobody would ever add anything
3 anywhere because it wouldn't make any difference anyway. So I
4 wasn't trying to ask that question. I was trying to address the
5 specific assertion. I don't necessarily disagree with you in
6 your testimony whether or not the addition of slots to pari-
7 mutuel facilities tends to preserve the jobs and the other
8 positive attributes of those pari-mutuel facilities. And I
9 really was trying to find out whether in those older situations
10 anybody had really studied it. I agree with you, though, states
11 aren't going to study it. I wondered if either your group or
12 somebody else had.

13 MR. HORN: Not yet.

14 MR. WILHELM: Thank you.

15 MR. HORN: Thank you.

16 CHAIRPERSON JAMES: And on that note I am going to
17 have to thank our panelists and encourage you, as I have other
18 panelists, to please continue to stay in touch with this
19 Commission as we go about our work.

20 A few notes as we go into a break right now. I want
21 to say to Commissioners that we've been told by the hotel that
22 they will charge us a half-day rate if we don't check out of our
23 rooms by 12:00. So you may want to use the break to do just
24 that. And I would say to our audience thank you for being here
25 this morning and I encourage you to come back, but ask as you
26 leave the room during the break if you have any personal
27 belongings to please take them with you, and we'll see you back
28 here at 11:15.

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