CHAIRPERSON JAMES: At this time I'd like to open up the panel for questions from Commissioners. I'd also encourage you all to engage in a dialogue among yourselves if you have questions or comments that you'd like to make.

COMMISSIONER BIBLE: Senator Maddy, in your prepared comments you argue that you feel that if the initiative is successful in California to expand Tribal gaming that that will lead to full-scale gambling in the State of California, and then that in turn will threaten the horse racing industry. Would you elaborate on that position?

SENATOR MADDY: Yeah. Let me preface by saying that I was the first person in the Legislature in California to introduce a constitutional amendment which would have allowed the Indian Tribes in California to have the video lottery games or if you will, slot machines. It was an interesting phenomena, because as Vice-chairman of the committee that was first introduced I had everybody against me. The vote was 1 to 11; I lost.

My theory was that I wanted to help the Indian Tribes, but I wanted to have the slot machines restricted to the Tribal lands that were in existence in 1988. Now, that created a problem within the Tribes in the sense that I felt very strongly that the Achilles Heal in terms of expansion of gaming and getting support of the public was that people are supportive of Tribal gaming as long as Tribal gaming is restricted to Tribal lands. Racetracks didn't like the idea of having Indian Tribes
have a leg up, if you will, by having slot machines. Card rooms didn't like it. So that was the result of the 1 to 11 vote.

I think that if the initiative passes in the form that it does, number one, it takes away any control at all from the Chief Executive in terms of negotiating a compact. It doesn't restrict in any way the access of the Indian Tribe, and in my opinion, allows them to either trust lands or other ways to have casino wagering on Tribal lands anywhere they want in the state of California by purchasing property anywhere. Now, that may be, I'm sure, going to be a contentious issue in the initiative, but it's my view. My view is that the Indian Tribes then by either initiative or any other way develop the right to have casino wagering. It's my view that the convention centers, the large hotels, the racetracks and everybody else will next follow-up with an initiative to allow casino wagering anywhere in California. That has been the tradition in the sense that once the lottery hit it began to expand. The -- once the initiative passed, the Governor strongly opposed the expansion of gaming. When the people spoke as loudly as they did with the initiative on lottery, then he viewed it slightly differently. And I think that by the initiative passing I think we'll see another initiative that will follow-up that will allow casino wagering anywhere in the state.

I don't believe that slot machines at horse tracks benefits racing. I think -- just as it's been mentioned here, I think the entrepreneurs, the operators of the racetracks will soon find out that it's a lot easier to have slot machines and care for them than it is to worry about the manure and the horses.
and all that sort of thing that goes along with operating a racetrack.

CHAIRPERSON JAMES: Thank you.

Commissioner Loescher?

COMMISSIONER LOESCHER: Thank you, Madam Chairman.

I'd like to ask a question of Timothy Smith.

I'm interested in the presentation here of Mr. Harper about the Del Mar Racetrack and its non-profit kind of approach to structuring and re-investment and the service it provides to horse race gamblers across the nation. But how typical is that across American? Is this an anomaly, or is there more for profit type horse racing ventures across America?

MR. SMITH: There's a broad range. I think that might also be a good question for Tom Meeker in the next panel to address. Tom is CEO of Churchill Downs, which is a successful public company. So there's a variety. There are many racing associations here in California. Oaktree Racing Association operates at Santa Anita nonprofit. It's a broad, broad variety across the board. Keeneland nonprofit, yet publicly traded companies are in the mixes as well. But the racetracks experts should comment on that as well.

MR. HARPER: Well, let me just -- I think that Del Mar is probably unique in its position as a state-owned facility, and a not-for-profit company running the operation of the racing. I think it's -- it concerns all of us in racing that perhaps our bottom lines are controlled by companies other than those that all have racing's well being at heart. We're seeing with the advent of San Ruiz, Santa Anita -- the real estate investment
trust was taken over by Medatrust (ph.). This is a company that to my knowledge has never been in the racetrack business before. It's a very bottom line oriented company. Will they be bottom lined enough to think that maybe Arcadia Racetrack will look a lot better as a series of hotels and real estate development; I don't know. It would be of great concern, especially to us in California that feel that San Anita is one of the flagships of racetracks.

These things, I think, concern us and that's why we rushed down to Del Mar, even a state-owned facility in the late '60's, early '70's, to establish this kind of a facility. Personally, I wish more tracks would follow this, but realizing the economic value of certain real estate, it's hard to do this in many places.

MR. CHAMBLIN: The three major tracks in New York; Belmont, Aqueduct and Saratoga, are not-for-profit. Meadowlands and Monmouth Park in New Jersey are both owned by the New Jersey Sports and Exposition Authority, and which are quasi-state facilities. And there are dozens of agricultural fairs throughout the country that offer either flat racing or harness racing.

COMMISSIONER LOESCHER: Madam Chairman, just one more.

I'm interested in comments made by Senator Maddy in - I'm from Alaska. In Alaska we have more fisherman than fish sometimes, and I'm interested in the notion of possible limited entry into gaming in California. Everybody is concerned about their competitive position, and the other guy getting more than
the other guy. But there seems to be a chance for saturation of
the market, although California's the biggest state in America.
With 32 million people it seems like it could handle a little bit
more, but is there any concept or thought among policy makers
about limited entry into gaming in this state?

SENATOR MADDY: Well, you go back to FCA3, the way I
introduced it was to take all of the statutory prohibitions
against gaming, which are essentially -- well, they're extensive.
They say no Nevada-type casino wagering, limited in terms of the
games that are played, and take those out of the statute and put
those into the Constitution. My theory was that -- and I didn't
hide my strong feeling that I liked the position that
Thoroughbred racing had in California. We have survived through
the years as having Nevada next door to us when Nevada was the
only major gaming state in the nation. We have survived with
card rooms. We've survived a great number of difficulties and
still had a thriving sport. I was going to take all of the
statutory prohibitions of gaming, put them into the Constitution
with the one exception being that the Indian Tribes may have slot
machines on their Tribal lands. This was, I thought, a great
combination of giving the Indian Tribes the right to continue to
progress they have with wagering on their Tribal lands and
benefit their people, and at the same time put a lid, if you
will, essentially on existing gaming in this state. That we set
up a regulatory and enforcement process through the Attorney
General's Office so that parlor rooms could not be expanded.
Make it tougher for local jurisdictions. And card rooms have
always been traditionally a local county or city decision. Put
greater restrictions on them, and then effectively horse racing was not going to expand much because we're already topped out, if you will. There's not that great a fan base, so that in part was my theory. I think that, again, one of the dangers of the initiative is that it's -- we have a hundred Tribes in this state. There are in terms of Tribal lands now some 90 or 99 different locations that are identified Tribal lands. We have a number of Tribes that are identified that have not necessarily any land, so to be the great concern in terms of what the proposition brings forth is this tremendous expansion of gaming. And I think just being as political as I am, once it evolves and the people began to say this is here, then why not have everyone enjoy it, and I think that changes the whole state of California if we have full-scale casino wagering.

CHAIRPERSON JAMES: Could I have each of you just briefly in one or two sentences address the question: Slot machines good or bad for horse racing? Slot machines at racetracks?

SENATOR MADDY: I've already spoken as to that.

CHAIRPERSON JAMES: Yes, you have.

MR. CHAMBLIN: Yes. Our organization doesn't have a formal position on slot machines at racetracks, but in areas where slot machines are available with the competition, I believe that racetracks should have the same opportunity to compete in order to stay in business. And that's been the case in a number of instances, including Delaware, Iowa, Louisiana, West Virginia, Rhode Island, a few other states.
CHAIRPERSON JAMES: In terms of its impact on the industry, Mr. Harper, good or bad?

MR. HARPER: Bad. I do feel it's bad. I came into this industry because I love the horses. I was born with horses. We always had a ranch. I rode -- I was involved in racing with my parents at an early age. Racing is my business. It's my love, it's my passion. Slot machines are not my passion. I think when you put them in you might as well kiss racing goodbye. Your staff, Doug, spoke of tracks that are comfortably in the black. I'm not sure any of us that are in the black are comfortably in the black, but we certainly recognize those facilities that are not in the black that have to do something to survive financially. When they bring in other forms of gaming they're going to survive, but not as racetracks. They're forced into this, unfortunately, because of the proximity of a lot of the same types.

CHAIRPERSON JAMES: Mr. Manfuso?

MR. MANFUSO: I think it's strictly a state-by-state issue. Chairman, that's where it comes down. I think the problem, and it is a problem, is that the focus when tracks get involved they don't develop quality racing, they don't market or promote their product, and they don't get into customer service and work on user friendly facilities. And it scares you because it's very much like a quick fix. It may look good today, but five years down the road -- and I don't think there's enough data to really make a firm decision -- but where are you.
MR. SMITH: As a new national umbrella entity with participating members in all camps on this issue, we have no official position.

CHAIRPERSON JAMES: Some of my friends are for it; some of my friends are against it, and I'm going to vote with my friends.

MR. SMITH: That's a good summary of our position. I will say this, seriously. We do view it as a state-by-state issue. There are locations in this country where the competitive pressures are so intense that the industry, our industry, is unified to seek alternative revenue streams. They vary as to the form.

Just one last point. Some additional revenue streams are definitely needed because purses are -- owners like Mr. Manfuso spend in the aggregate about $2 billion a year seeking a portion of $900 million in purses. And that's having all kinds of impacts. The best American blood stock. Some of it is going to Japan where purse levels are higher. We need to do something to address the purse issue, but there's obviously deep division to whether slot machines are the answer.

CHAIRPERSON JAMES: Mr. McCarthy?

MR. MCCARTHY: I don't know which one of the panel should address this, but I think we've read some newspaper clips that our staff puts together each week talking about the gubernatorial race in Maryland, and that it's large issue there as to whether or not slot machines should be put on the racetracks in Maryland. In any states where those who are participants in racetracks are actively advocating slots, is
there a clear definition of where the revenues, the profits from
the slots would go? Would they go to the purses? Would they
strictly be used to further horse racing, or is it rather just
another source of profit for those who participate in racetracks?

MR. SMITH: Well, I can speak briefly to it from what
I know, and there's people in this industry that are a lot
smarter and up-to-date on it than I am.

I think a lot of tracks that want to put in slot
machines and remain a racetrack are obviously under pressure from
their horsemen's organizations that if they are going to put slot
machines in there, a percentage has to go towards racing itself.
Toward either purses and also toward those programs that support
Thoroughbred racing. So if you're going to do both, there's
probably a lot of pressure to get the money into the racing.

MR. MCCARTHY: Well, just to take it a step further.
The argument that I've heard whenever this has been discussed is
that racing is an important part of culture in many parts of
America, and they're fine animals. People derive a great deal of
pleasure from seeing these animals well bred and trained, enter
into a competition. Wouldn't it be a saner policy -- I'm frankly
not keen on expansion of slots anywhere, but wouldn't it be a
saner policy on the part of those that are trying to save
competitive horse racing in America to take all of the profits
from slot machines or any other form of gambling they want to put
and devote it to helping the industry survive, rather than
allowing the investor-owners of the racetracks merely have
another profit center.
MR. SMITH: Unfortunately, sanity has never been one of our highlights in this industry at times. You are absolutely right, Mr. McCarthy. I think that it should go there. I think the revenues from slot machines, if you're going to have them, other forms of gaming, if they are going to save our industry, that's where the money has to go.

MR. MCCARTHY: I think in some states that's what's happened. Legislators have required that some of the profits, a portion of. My concern with that is it's a short-term fix. My view would --

CHAIRPERSON JAMES: I'm sorry. I didn't recognize Commissioner Bible, then we'll go to Mr. Lanni.

COMMISSIONER BIBLE: For anyone on the panel, what do you see the potential for growing the handles through home wagering opportunities over the next five or ten years? I know we have Mr. Meeker on the next panel, and I've heard that conversation about home wagering opportunities here in California and other places.

MR. CHAMBLIN: I think the issue of technology and what it does to racing in home wagering or in account wagering, as we prefer to talk about, is no more than figuring out a way to handle the technology that's there. And when we started in the mid-'80's with full card simulcasting it actually started simulcasting the Derby, bringing the Derby to tracks around the country, making the Derby Day a special thing in California or in New York or whatever other racing facility was operating on that day.
We could do that because we could send the signal. And all of a sudden the public starts telling you things that the technology's there. You can't put your head in the sand with technology, and the technology is there today to develop account wagering. And I think that -- and Tom Meeker will address it in the next panel, but I think that is a huge avenue that this industry will pursue, given the opportunity, into the 21st Century. I don't think there's any question about it.

Madam Chairman, if I could, one comment on Maryland and the election issue in Maryland. It's a very difficult situation in the state right now, because we have racing that is prospering and half of us think it's a good idea and half of us don't. But very interesting is a public policy issue setting aside the question of whether or not is it guys trying to sell on the basis of we want to fund social programs. And I just have a difficult time. I really have a difficult time because that's where the tax on pari-mutuel wagering started. The historic fact is that we used to contribute significant taxes. The only problem is that we made big capital investments in buildings. When people finally woke up 10, 15 years down the road they said wait a second, we don't have the money to make these additional capital investments. We don't have the money to market, and yet the state, with all due respect to the politicians, they were already in our pocket taking a third of our gross revenues off the top without even participating. That's part of the history and part of the problem of racing in this country today. It's taken 15 years for the states to gradually get out of our business, or at least tax us as other businesses.
MR. SMITH: If I could give a brief response to Commissioner Bible's question about account wagering. I think the industry does believe it has potential. It is one of those potential, additional revenue streams. The issue and problem is, is it going to be regulated or is it going to continue as now, largely unregulated. It is occurring -- phone wagering has occurred extensively throughout the country. What states are increasingly realizing is they're better off regulating it, taxing it, tasking the industry with dealing with any sort of compulsive gambling or underage gambling issues and regulating it and making it an official part of the game rather than let it continue to happen offshore, illegally, which is pretty prevalent now.

CHAIRPERSON JAMES: I think we'll get into that issue a little bit more in our next panel.

Commissioner Lanni?

COMMISSIONER LANNI: Thank you. I'm not sure who I direct this to, but a number of you have mentioned that maybe a reduction or obliteration of the taxes that states take from your industry on a regular basis would be very helpful. However, Tim, you mentioned that there are, I think, $900 million in purse money available for $2 billion in expenses. I mean, it's very difficult for me to see any business operating for very long when its revenue is less than half of its expenses, and any reduction in taxes would be delaying the inevitable unless some other form of revenue were found to support the industry. Would you agree with that?
MR. SMITH: Well, I definitely think that in addition that's really part of what the NTRA is all about. No other sport that's nationally televised and has been around as long as Thoroughbred racing has the TV ratings and the viewers and 34 million in attendance every year operates without national sponsorship revenue, lots of other streams of revenue we are going to chase hard. But a reduced tax burden would clearly help. New revenue streams would help, and there are some other revenue streams for owners, as you know. Breeding revenue from successful, particularly from the horses that have proven successful through pedigrees, racing, et cetera. So it's not quite as bad for owners as maybe those numbers imply, but clearly additional revenue and additional purses need to be part of racing's future.

SENATOR MADDY: If I could add something to that. I was hopeful that I would be able to announce that we had a substantial license fee reduction in California, but unfortunately it's going to go hand in hand with budget, if we ever get the budget. And as Governor McCarthy knows, sometimes that's very difficult to get, even in the good days. We have a $4 billion surplus. It's hard to imagine we couldn't get a budget. But in any event, I agree with Tim. The industry has to build, otherwise it just doesn't ever pencil out. We pay the largest license fee now in California in any other state. We're going to reduce it if my bill, which I think is going to pass, is successful.

We've designated what our goals should be. To finance the fairs. We always have, since 1933 in California.
Have the regulatory enforcement that the Horse Racing Board financed. Do our major projects, a million each, at the Research Center and the UC Davis, as well as the analytical laboratory at UC Davis, and then to give monies to the charities and local government. That's what we think is the proper way. And that's about $40 million a year, which we are content with as a sufficient license fee in California. We've been paying up to $150 million a year as license fees in California over the last 15 years.

COMMISSIONER LANNI: Another question. We have a responsibility as a Commission to submit a report to varying entities. The President, Congress, the governors of the several states, Native American Tribal governments, no later than June 20th of 1999. And we have the responsibility of submitting our findings, which I am sure we're going to be quite capable of doing on this subject as well as others.

However, my question is we also have the ability to make recommendations to those entities. If you were sitting here and you had the opportunity to recommend to us what we might recommend for your industry, what would that be. And I'm not so sure who would want to take that.

SENATOR MADDY: Well, for California I go back, I'm still a strong proponent of what I proposed a long time ago. We have survived in California perhaps because we have the Pacific Ocean on one side. Our racing situation's much different than if we were in Maryland or Kentucky as being surrounded by river boats, casinos, and all the rest of the gaming activities. So I would be perfectly prepared and willing to continue the vitality
of the Indian Tribal activities as long as they're restricted to Indian lands, put other restrictions and allow those of Nevada to continue with what they've done for years, and allow us in California to have a prosperous and vital Thoroughbred racing there situation.

COMMISSIONER LANNI: In other words, just leave us alone.

SENATOR MADDY: Just get us back to where we were and not have any more intrusion. I think that the industry can survive under tough conditions because we have a very strong, vital industry, but we're not going to survive if this becomes another Nevada. I opened the racetrack in Las Vegas in 1952 as a groom, and I think there were more people leaving after the second race than were attending. I stayed there until the end and then packed up and came home.

CHAIRPERSON JAMES: No more intrusion. How about no more expansion; is that what you're saying?

SENATOR MADDY: No more expansion, certainly.

CHAIRPERSON JAMES: Any other panelist like to respond to that? It's a golden opportunity to make recommendations.

MR. SMITH: Can't pass it up. I'd say reduce taxes and realize that account wagering is not expansion. It's something to be regulated and controlled and added to the mix of distribution of our product, of our sport.

MR. HARPER: I have to agree with the last two fellows. We're not scared of regulation. We certainly are heavily regulated in this industry, and for the most part it's --
they're pretty good regulations. We have to be left alone, I think, to some degree in our endeavors. We can't -- we have to deal with competition on a level playing field, and we'll survive, I think with the NTRA. This business is getting organized, and I think we have a bright future, and I do think our expansion has to be a convenience to our customer, and I think we'll survive okay.

CHAIRPERSON JAMES: One final comment.

MR. CHAMBLIN: Yes. Madam Chair, I don't believe that the Commission should advocate doing away with account wagering or any other possible technological developments that might benefit this sport. I believe those decisions should be left up to the state, state legislatures, and the racing commissions. And when a state approves pari-mutuel wagering, as 43 states have, that state should give the opportunity to everybody within its borders to wager on races within that state if he or she chooses to do that. And some of those individuals may live 500 miles from a racetrack.

CHAIRPERSON JAMES: Thank you, very much. And with that I'm going to offer our thanks to this particular panel, and again I appreciate your testimony. As we finish out our next year I would encourage you to stay in close contact with the Commission and with the staff, and we will make sure that your complete testimony is a part of our official record, and would ask as we get into the drafting and recommending stages that you will still make yourselves available to us for your advice and counsel.

Thank you very much.
PANEL: Thank you.

CHAIRPERSON JAMES: I'm going to let staff have the opportunity to take down those name tags, and as I introduce our next panel I would ask them to each come forward as their name is called.