

COMMONWEALTH OF PENNSYLVANIA

GAMING CONTROL BOARD

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IN RE: WASHINGTON TROTTING ASSOCIATION - PETITION TO
CHANGE THE GAMING FLOOR PLAN

* * * * *

PUBLIC HEARING

BEFORE: GREGORY C. FAJT, CHAIRMAN
Raymond S. Angeli, James B. Ginty,
Keith R. McCall, Anthony C. Moscato,
Gary A. Sojka, Kenneth I. Trujillo; Members
Christopher Craig, Representing Robert M.
McCord, State Treasurer
Robert Coyne, Representing Daniel P.
Meuser, Secretary of Revenue
Daniel Tufano, Representing George Greig,
Secretary of Agriculture

HEARING: Thursday, April 28, 2011
11:25 a.m.

LOCATION: Hearing Room One
North Office Building
401 North Street
Harrisburg, PA 17120

WITNESSES: Sean Sullivan, William (Bill) Paulos
Reporter: Cynthia Piro Simpson

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CHAIRMAN:

As is our normal practice, if I could have the non-attorneys either from OEC or from Washington Trotting who will be presenting testimony today to please stand to be sworn in.

WITNESSES SWORN EN MASSE

CHAIRMAN:

Thank you. Although I'd just like to ask the name of the persons speaking, including Counsel, please state and spell your name for the stenographer before you begin. And with that, Washington Trotting Association, you may begin.

ATTORNEY JONES:

Good morning.

CHAIRMAN:

Staff, could I have --- attention down there, please? Thank you.

ATTORNEY JONES:

Good morning. Good morning, Mr. Chairman, Commissioners. Marie Jones, J-O-N-E-S, From Fox Rothschild here on behalf of Washington Trotting

1 Association. With me today is William Paulos, the
2 Principal of Cannery Casino Resorts and President of
3 Washington Trotting Association, Sean Sullivan,
4 general manager and vice president of WTA, and Lance
5 Young, the director of Table Games at WTA.

6 We are pleased to be here before the
7 Board to present the renovation plan for WTA's gaming
8 floor. This will provide significant enhancements to
9 the floor and the facility in general. WTA developed
10 the revisions to the floor after extensive research
11 into customer's demands and wants. The research
12 included focus group discussions with patrons,
13 discussions with employees and the horsemen, review of
14 WTA's facilities at its competitors, and review of
15 slot machine utilization.

16 After the extended research, it was
17 determined that enhancements to the floor were
18 necessary, and WTA proposed a significant capital
19 expenditure to do just that. This expenditure will
20 enhance the facility and make it more profitable.

21 While the enhancements do include a
22 reduction in slot machines, as you will see, this is
23 for business reasons. Further, WTA will provide you
24 with information today regarding future plans for its
25 facility. With that, I'd like to turn it over to Sean

1 Sullivan to explain the floor renovation.

2 MR. SULLIVAN:

3 Thank you, Commissioners. Just quickly,
4 for description, just a quick summary of our idea and
5 our proposal. Our proposal is to indeed reduce 189
6 slot machines, so we would go from 3,506 currently to
7 3,317. The main reasons, as touched on by Marie, are
8 better utilization of the casino floor to maximize
9 gaming revenues and to improve the experience for our
10 guests.

11 We determined the 189 for a number of
12 reason, one being utilization. And here we just put a
13 couple of the highlights that we see day in and day
14 out, and these figures are focused on our busiest
15 periods, our summer season, if you will.

16 Our highest utilization during our peak
17 hours, which is generally reserved for Friday and
18 Saturdays, is 51 percent on Fridays and around about
19 60 percent on Saturdays. Even after we reduce 189
20 games, we're barely inching that up to 54 percent on
21 Fridays and 63 percent on Saturdays. So, during our
22 busy, typical weekend period in our busiest season,
23 summer, one could say that there's 1,234 machines
24 still available for our guests to select, which we
25 believe is a strong component of our variety of

1 experience.

2 On the next page, we present a quick
3 chart that gives you some of the business indicators,
4 if you will, that we look at each and every day, we
5 understand, and that is in support of our request.
6 First off, is the Meadows indeed is the largest slot
7 machine floor in the Commonwealth.

8 We have 3,506 machines. This is an
9 average, so we maybe have one down for maintenance and
10 so on, but 3,505. We rank number five in GTR at
11 \$120,000,000, and we rank number nine, just up from
12 the bottom, in the win per unit at \$190.

13 Typically, when we look at this, we talk
14 about fair share. We talk about how is our equipment
15 share and how is our revenue share?

16 Okay. Just an example, 13 percent of the
17 equipment is on the Meadows floor. Ten percent, ten
18 and a half percent of the revenue is on the Meadows
19 floor. So that would suggest that there's a bit of a
20 supply and demand issue.

21 If you went down one rung and just did a
22 quick calculation, you'd see that the Parks --- very
23 similar number of slot machines, approximately 13
24 percent, but their revenue is 16 percent. So they're
25 actually performing above their share of equipment.

1 And that's a positive indicator. That's a good sign
2 in the business.

3 The Sands is probably right at 100
4 percent fair share. They have 11 percent of the
5 equipment, and they have 11 percent of the revenue. I
6 didn't go down the list, but just to show you, we
7 would like to be in a position where at a minimum, we
8 were fair share. We won't get there by this move, but
9 it is a business indicator that tells us we have
10 plenty of equipment currently available.

11 Our next slide is taking those machines
12 out. We don't change the landscape much at all.
13 We're still number two in the most machines category
14 with 13 --- 3,317. Our ranking at number five is
15 unchanged. We assume that it will be --- break even
16 or better, and we'd like to believe, and we do believe
17 substantially, that this won't hurt revenues. And we
18 don't change our ranking. Even though it goes up to
19 \$201 per unit, we're still in ninth place. So,
20 there's not a wholesale change here in these
21 indicators.

22 Next, we show you that we've done this
23 before. We've been here before. We've made changes
24 recently. We've reduced our slot machine count and
25 our revenues have gone up. This is a quick comparison

1 of the first quarter of 2010 against the first quarter
2 of 2011, and it does show \$57,000,000 last year,
3 \$61,000,000 this year, so up \$4,000,000, up 7.4
4 percent.

5 Slot machines in this snapshot shows a
6 reduction of 192. So, we reduced our machines 5.2
7 percent. Revenues went up 7.4 percent. And the
8 revenue that came along with that increased 13
9 percent, so we've done that. We said we would do it
10 last time. Here it is, and that's a quick snapshot.

11 Talking specifically about what we plan
12 to do in the enhancement --- and again, it's based on
13 what Marie touched on, talking to guests, talking to
14 employees, talking to the horsemen, talking to
15 everybody we could to learn more about how can the
16 Meadows improve the gaming experience?

17 And just quickly, we paid particular
18 attention on the better-betters. If you will, there's
19 light betters, moderate betters and heavy betters.
20 This conversation is about all of that, but it also
21 focuses quite intently on the better-betters, the
22 higher category. And those are the ones that create
23 the most revenue for our partnership for the
24 Commonwealth.

25 Number one, we want to create a dedicated

1 VIP lounge for our slot high-limit value ---
2 high-value players. We've moved around a couple
3 things. Currently, our high limit area has table
4 games in it.

5 The customers spoke loud and clear. They
6 don't want anything in there but a place to get away
7 from the floor, relax, have a beverage, have some
8 small plate foods, enjoy the atmosphere and take a
9 break. So, we want to get back to making our VIP
10 lounge 100 percent dedicated to our high value
11 players, particularly in slots.

12 Next we want to relocate our clubhouse.
13 Our clubhouse --- and I'll jump ahead one slide.
14 Hopefully, you can see this. In the bottom right-hand
15 corner is where our current clubhouse is. Our
16 clubhouse is reserved for our top stats players, gold
17 and platinum players.

18 So in the bottom right-hand corner,
19 currently --- even though there's a table game design
20 there, currently our clubhouse is there. That's where
21 our better-betters go. If they want to go to the
22 lounge and get away and take a break, and I'm talking
23 --- they got to traverse the floor, and trust me, it's
24 a large floor, all the way to the top left corner.

25 We think that's a disconnect. Our

1 players have told us without a shadow of a doubt,
2 that's a disconnect. So, ultimately, we want to
3 relocate the bottom right-hand corner clubhouse to the
4 top, the left-hand, page center, right below Adios
5 Lounge in the top left-hand corner.

6 So, now we have, if you will, a trifecta
7 behavior up there, where our clubhouse, which we'll
8 talk about briefly, affords us great customer service
9 and experiences for our platinum and gold players. We
10 have the Adios Lounge in the corner up there, which
11 affords that drink and food and beverage and watching
12 the Penguins and the Pirates and everybody else in the
13 center, in the top left here.

14 The right, just quickly, up there in that
15 trifecta, is our current high limit slot area. That's
16 where our high denom games are, \$100 games, \$5 games,
17 \$20 games.

18 So, now we have our slot centric
19 behaviors up on the left. It affords us a great
20 opportunity to treat our guests as good as anybody
21 can. And to us it's all about minutes, the five
22 minutes, ten minutes they'd waste crossing the floor
23 to that far corner is lost revenue for every one of
24 us. Now, they can step into the restroom, they can
25 step up to the cage, they can step up to the Adios

1 Lounge and do it all relatively virtually in the top
2 left-hand corner.

3 And just quickly, the bottom right-hand
4 corner, which is our clubhouse, now becomes our
5 high-limit dedicated table games area. We've
6 absolutely got a voice for that. We had a great month
7 last month, as you've seen, because we're making high
8 end rolls with these high players.

9 And they're very particular. They don't
10 want to be in an Adios Lounge where there's slot
11 players around. They don't want to be in the middle
12 of the floor. They want some privacy. We have a
13 number of notable, well-known gamblers that come in.
14 They want to have their own experience, and they want
15 to be protected from the general public.

16 The very small square, just about center,
17 towards the top, is another byproduct that we learned
18 in our experiences with guests, and that is, how can
19 we get the horse experience, the horseracing
20 experience, up to the casino level? Right now,
21 everybody has to go downstairs, and again, disconnect.

22 So, we heard loud and clear, show us the
23 racing in the Terrace Café. Show it in Bistecca, in
24 the steakhouse. Show it in the casino. And by the
25 way, make it convenient for us to bet. Make it

1 convenient for us to step over to the window. So,
2 that's an addition to this improvement plan, if you
3 will, to enhance the overall experience at the
4 Meadows.

5 I think we touched on those table games
6 --- would go from what we consider our current
7 private-ish experience in the Audios from four tables
8 to the more dedicated table area in the bottom right,
9 to 11 tables. And as I mentioned, a race window
10 adjacent to the satellite cage. And again, trying to
11 provide optimum guest experience.

12 In addition, the plan was conceived with
13 the following thoughts in our mind. And admittedly,
14 when we put this plan together, nobody knew
15 Nemacolin's fate, if you will. It's been decided. It
16 actually adds credence to our position. We know
17 Ohio's coming. It's been coming. We know it's soon
18 to be here. So, these are other --- and in my
19 opinion, Nemacolin, especially, with its appeal to
20 higher end players. We have to step up our game on
21 our high end play.

22 So, having that left corner up there and
23 having that distinct table game experience really
24 helps us compete with the competitive landscape. So,
25 those things were taken into consideration.

1 And most importantly, we'll shift ---
2 and we got the letters of support, although they're
3 difficult to read here. But like, the MSOA and the
4 Harness Commission, we sat with them and discussed it
5 intently and are excited about the idea of having
6 racing exposure up on the casino floor, exhibited at
7 the steakhouse, at the coffee shop. So, the
8 partnership is improving and getting stronger. And
9 they are here to show you that they're onboard with
10 this.

11 A quick look at the clubhouse, the new
12 clubhouse. You saw the location. I just want to
13 point out that this gives us the opportunity for gold
14 and platinum club members to be treated exclusively.
15 We can give them service that's above the average out
16 on the floor. We'd never want to say we're providing
17 bad service, but we surely want to accentuate service
18 in this area.

19 We also can tie in individual promotions
20 within the walls of red --- that red line. They will
21 be competing for sub-promotions within promotions.
22 So, it's really the opportunity, for example, that a
23 little motorcycle, a Harley-Davidson, maybe, on that
24 promotional platform. These will be the only people
25 there.

1 And it's funny. Bill mentioned to me,
2 once he was on the airplane with somebody. What are
3 you doing for the platinum players? What are you
4 doing for us separate? I don't want to be in a
5 promotion with 35,000 people. I want to be in a
6 promotion with my fellow platinum members.

7 This card's held out extremely well, to
8 play only against fellow cardholders. So, that's a
9 good experience and very loud and clear in our
10 discussions.

11 He reads fast. Table games. This is
12 that table game, again, in place of the current
13 clubhouse location. But it would be a dedicated room.
14 Our current clubhouse is open air, if you will. This
15 will be an enclosed area. It's not private by any
16 means. Anybody can go in there if they play at that
17 level, if they wager at those limits. But it is
18 exclusive.

19 And what we do want to build in here ---
20 and you can see in the --- maybe not, but on the left
21 side we're building a bathroom, visitor restrooms.
22 We're building a cage. There's already a bar, a
23 horseshoe in the middle of the room, so, we're really
24 bringing that totally dedicated, high end experience
25 to our best table game players. And they're a

1 meaningful contribution to our table games revenues
2 and our overall revenues.

3 So, we didn't just say, let's make more
4 slot revenues. We said, let's make more revenues
5 across the board.

6 And then a unique idea here, there's a
7 little separate red line on the right side of this
8 room. We have a smaller room, private room, if you
9 will, exclusive room within the exclusive room. And
10 that's where the real notable people --- I can't say
11 their names. But there's people that come in there
12 that everybody recognizes. Now, they can just sneak
13 into a smaller setting and be treated as they require,
14 which is protected from even other high rollers, if
15 you will.

16 So, this is our --- in the table games
17 area. Again, those are what we have committed, now 4
18 tables to 11 tables. And we think that's absolutely
19 the right direction.

20 Even in the table games world, we're
21 still at the bottom end of the spectrum. We're at 51
22 tables now. We'd go up to 58, so not a demonstrative
23 change there, but finessing, if you will, of the
24 components and experiences we can provide for our best
25 betters. Next, I'd like to turn it over to Bill for a

1 moment, and he can talk briefly about the \$25,000,000
2 that we also have up our sleeve.

3 MR. PAULOS:

4 Okay. Is this one on here?

5 CHAIRMAN:

6 No, but I ---.

7 MR. PAULOS:

8 Good morning. Wonderful to get here this
9 morning with cancelled flights, driving through the
10 rain, tornados and whatever. And you had a tough time
11 here today, too, so I understand. But I know today
12 there are some skeptics here that think we have
13 ulterior motives for this request, people who believe
14 that we are trying to just cut costs or dilute our tax
15 bite. I've come here today personally to show you
16 that that couldn't be further from the truth.

17 Actually, it's the opposite. We are
18 about to embark on some major enhancements, not only
19 but for the Meadows, but also for Washington County
20 and the Commonwealth, our partners.

21 As you may know, we are in the midst of a
22 refinancing. Proceeds from that refinancing will be
23 used, with your permission, of course, to construct a
24 1,300 car parking garage and a 20,000 square foot
25 multipurpose center that will be used for meetings,

1 concerts, and major dinner events. Approximately the
2 cost of \$25,000,000, that we want to reinvest into the
3 Meadows.

4 Can we go to the next slide? And you can
5 see the parking garage is on the north side of the
6 casino, connecting in the red delineation. In the
7 green delineation is the multipurpose room that will
8 seat 1,000 for concerts.

9 Right now you may all know that we do
10 concerts out on the racetrack during the summer
11 months, of which we will have another summer series
12 this year. And this time we --- so, by using the
13 multipurpose room, that we can fit 1,000 to 1,200
14 people in, we'll be able to do it year round. So,
15 we're pretty excited about that.

16 We also are about to close on 22 acres of
17 land contiguous to our property, extending our
18 racetrack frontage --- racetrack road frontage to over
19 1,600 feet. I can see it right down there on the
20 south --- southwest corner of our property.
21 Temporarily, it'll be used for parking while we build
22 the garage. However, we are in the process of talking
23 to a number of top developers regarding a mixed use
24 hotel retail development for that property.

25 Why do we want to do this? Simply

1 because we are trying to create even more demand at
2 our facility than is there today. To our focus group,
3 the increased competition coming from Nemacolin and
4 Ohio and the analysis we do every day on every second
5 of our business, we have determined that we must
6 better our product. We would like nothing better than
7 to come back to you after all of this is accomplished
8 and ask you for an expansion of the Meadows Casino.

9 Seven years ago I stood before this
10 esteemed body and listened as I was told that the
11 project we proposed was not financially viable. Well,
12 with an investment of over a half a billion dollars
13 and using the experience and expertise we've acquired
14 over the last 40 years, it is a very viable project.
15 And we only want to make it better.

16 We made many promises on what we would do
17 and how we would do it. We have kept them, every one.
18 Why? For the betterment of our partnership. And that
19 is what --- why we are here today with this request,
20 to make the Meadows better, to make more revenue for
21 our partnership. Thank you very much.

22 ATTORNEY JONES:

23 Thank you. That concludes our initial
24 presentation.

25 CHAIRMAN:

1 Thank you. OEC?

2 ATTORNEY CREANY:

3 Thank you, Commissioner --- Mr. Fajt.
4 Barry Creany for the OEC. I do have a problem for
5 Sean because it's more on the proposed gaming floor
6 change. Certainly, I'd ask you --- in your petition
7 and to some degree today, you've been talking about
8 peak utilizations.

9 And could you give me an idea what it is
10 that goes into how you determine a peak utilization?
11 And what I'm looking for is more or less what times,
12 and if it's a machine being used in that time, what
13 frequency? Do you need to, you know, pull a handle or
14 do you need to play the machine once, twice, or is it
15 something you're going, like, the full hour or do you
16 calculate that?

17 MR. PAULOS:

18 It is a body per machine per hour; okay,
19 during the period of 8:00 to 10:00 on a Friday and
20 Saturday night during the summer months, which is our
21 highest peak period. So, the highest utilization with
22 the maximum amount of machines ever used is
23 approximately, right now, 2,800 machines; okay.
24 That's the highest number.

25 Now, if we go back, increase our

1 utilization, we're still saying that there'll be 1,230
2 machines available for people to play, empty machines.
3 So, these are actual bodies in front of the machines,
4 actually playing.

5 ATTORNEY CREANY:

6 And are you meaning for the entire hour
7 or just if they're there for 15 minutes?

8 MR. PAULOS:

9 If they're there for 15 minutes during
10 the polling period --- we polled every 15 minutes ---
11 they will be counted, yes.

12 ATTORNEY CREANY:

13 Okay. We had a petition before the Board
14 back in spring of 2010, which I think was ultimately
15 approved April 7th or so of 2010. And at that time we
16 were talking about what it is that you're really
17 trying to target with your business as far as the
18 utilization.

19 And Mr. Paulos, I'm not sure if I had
20 this conversation with you or with Attorney Jones or
21 Sean at the time, but we were looking at that 60
22 percent range you were saying right now. We had a
23 conversation about what was the industry's peak? What
24 do you want to see from your standpoint of how much
25 utilization is really the right, if not the maximum,

1 the sweet spot that you'd like to see?

2 MR. PAULOS:

3 Quite frankly, we build these properties,
4 okay, for holidays and Friday from 6:00 p.m. and
5 Sunday to 6:00 p.m. That's it. We really don't want
6 to get over an 80 percent occupancy rate, utilization
7 rate.

8 You know, obviously, if we did --- okay;
9 that's a high-class problem. And if you have a
10 high-class problem, you have it on very rare
11 occasions, but the optimum or the --- really the
12 maximum is 80 percent, because then people are
13 spending too much time looking for the machine that
14 they want.

15 ATTORNEY CREANY:

16 That's precisely the conversation that we
17 had either at the hearing room or in pre-hearing
18 discussions. Eighty (80) percent was an industry ---
19 from the customer's viewpoint, from this person that's
20 going to play the slots, maybe likes one game or the
21 other. What do you think is their optimum?

22 You said you don't want to have them
23 searching all over, so maybe there is a point --- and
24 you said you built these for the, you know, the peak
25 times. What do you think from the customers

1 perspective is ---?

2 MR. PAULOS:

3 From the customer's perspective, 80
4 percent, they still have --- as long as you --- again,
5 you're talking about numbers. You know, if you're
6 talking about a casino with 500 slot machines; okay,
7 80 percent utilization, you don't have --- you know,
8 if you don't have a lot of slot --- empty slot
9 machines. When you're talking about a facility that
10 has 3,000 machines more, 80 percent still has a lot of
11 slot machines available to play. But we also divide
12 our floor in clusters, specifically so people can find
13 the machine that they'd like to find, that they'd like
14 to play.

15 ATTORNEY CREANY:

16 With respect to the interplay between
17 slots and table games, that's really why we're here
18 today. We're here --- just to be clear for the
19 record, the OEC did not object to the petition but
20 asked the Board for a hearing on the matter so we
21 could go into these issues to go into a decision where
22 there may be a reduction.

23 But just to go to the point of why that's
24 an issue under the Gaming Act, WTA filed its petition
25 for table games back in February 26th of 2010, prior

1 that --- that you had filed a petition for a reduction
2 of your slots on February 22nd, and that is for a
3 reduction of 111 slots. And now we're here a year
4 later, and you want 189 more reduced. Why didn't you
5 do this all at once in 2010? Is there something
6 between now and then you've learned about market
7 demand that has brought you to the conclusion that
8 this is the appropriate reduction at this time?

9 MR. PAULOS:

10 Well, actually, it's the clarity of the
11 floor, the clarity of the demands that our customers
12 want. We spent \$100,000 doing focus groups over the
13 last six months, asking people what they like. You
14 know, we've had increased competition from the Rivers.
15 We've had Nemaquin now been approved, and we have
16 Ohio coming. We want to get ahead of the curve, not
17 behind it. So, that's why we're going through this
18 exercise and trying to maximize the efficiency of our
19 floor so we can maximize the revenues and the
20 profitability.

21 ATTORNEY CREANY:

22 Well, we heard your overall presentation
23 just before this. There was a number of enhancements
24 to the floor, the racing windows, moving a couple
25 things around to accommodate what you wanted for the

1 needs of your customers. But is there an overarching
2 reason as to why you're wanting a reduction in slots
3 at this time as far as --- you know, is there a
4 specific purpose?

5 MR. PAULOS:

6 The specific purpose is to maximize the
7 utilization of our floor, the utilization of our
8 employees. As a matter of fact, I think we'd gain
9 employees after we do all of this. We don't lose
10 employees; okay? This is not a cost saving scenario.
11 It is how we more efficiently service the customers
12 that we have. Now, if you take a look now, although
13 we build these places, okay, for Friday at 6:00 ---

14 ATTORNEY CREANY:

15 Uh-huh (yes).

16 MR. PAULOS:

17 --- to Sunday at 6:00, we operate 24/7.
18 So, when you have a --- and I don't know if you've
19 walked our casino.

20 ATTORNEY CREANY:

21 Uh-huh (yes).

22 MR. PAULOS:

23 Thank you. We appreciate that. It's a
24 very large casino, so when you're servicing a customer
25 or customers on Tuesday night, okay, when your

1 customer count may only be 800, 900 at a time and
2 they're spread out all over this casino, it is much
3 more difficult to provide them service. There's no
4 question about that.

5 So as we noted in the presentation, which
6 speaks loudly, okay, to the overabundance of slot
7 machines, because when we reduce those slot machines,
8 we still stay ninth place at wins per unit, which
9 speaks loudly to the fact that we have more units
10 than, quite frankly, we need. Okay. And by
11 increasing the service standards, okay, we believe, as
12 we did previously, we'll increase our revenue. I
13 promise you, we're not in a business to go backwards.

14 ATTORNEY CREANY:

15 With the 189 slots that you're requesting
16 the approval to reduce, what criteria is used to
17 select those machines?

18 MR. PAULOS:

19 We'd use a criteria where our --- it is a
20 very interesting --- it's a very interesting dynamic,
21 because you can move a machine that is a low performer
22 to a different location and then get a high performer.
23 So, what we've done is we've said, okay, we'll take
24 the bottom 189 performers. We'll take them off the
25 floor, okay, with FIU ---

1 ATTORNEY CREANY:

2 Yeah, yeah.

3 MR. PAULOS:

4 --- FIU's agreement.

5 ATTORNEY CREANY:

6 Uh-huh (yes).

7 MR. PAULOS:

8 Okay. Whatever they agree with, we're
9 happy, we're happy. We'll take those machines off the
10 floor and then we'll adjust accordingly as, you know,
11 as we see. But when you say, I can take a machine
12 from the center of a bank, move it to an end of the
13 bank and create 100 more wins per unit a day,
14 unfortunately, there's just so many ends of banks that
15 you have.

16 ATTORNEY CREANY:

17 So there's the question, are the machines
18 inherently out of bat, or you know, they have phases?
19 Or is it locations, games, denominations? What kind
20 of factors go into what's a good machine and what's a
21 bad machine?

22 MR. PAULOS:

23 All of the above.

24 ATTORNEY CREANY:

25 Okay. And to the extent that you pick

1 189, do you believe that there's any primary factors
2 why they're being under-performers?

3 MR. PAULOS:

4 Again, all of the above. You know, some
5 are just outdated; okay? Some are outdated.

6 ATTORNEY CREANY:

7 Uh-huh (yes).

8 MR. PAULOS:

9 Some are in locations as --- when you
10 look at our floor, it is so --- it's so large that
11 there are some dead spots. There's absolutely no
12 question. So, what we try to do --- and as we get the
13 right number of machines, okay, we're more able to
14 market those dead spots and make those dead spots even
15 better.

16 ATTORNEY CREANY:

17 To your knowledge, of the 189 --- and
18 just for the record, within the last couple days ---
19 actually, within the last couple months that we've
20 been going back and forth in the Meadows, they've
21 identified the machines and they've provided the
22 information. At this point, with the 189 that are
23 identified, are you aware whether or not there's been
24 any significant relocations of those machines that may
25 have impacted upon their performance?

1 MR. SULLIVAN:

2 No. I mean, our floors --- there are
3 dead spots. There's no doubt about it. But there's
4 not such dead spots. Our floor --- when we identified
5 those 189, it's across the floor. There's not the
6 upper left-hand corner that are coming up or the lower
7 right-hand corner. We went and started at the bottom
8 of the list.

9 151, I believe, are easily identifiable.
10 They're just dogs, you know. Again, as Bill
11 mentioned, there's a number of reasons why they're
12 dogs.

13 It could be there's no RME in that
14 machine anymore, no programs or themes that are
15 current, or it could be a number of things. Location
16 can be one of them. I mean, it's as simple as under
17 an air conditioning unit. You know, customers will
18 tell you, I can't play.

19 So I mean, there's so many variables that
20 go into this, so --- and trust me, Bill's right, we
21 have 12 people back at corporate digesting and turning
22 and reviewing this stuff every single day. So, 150 I
23 think will come rising to the surface and say, wow,
24 lowest performers.

25 Then there's some abnormality, because

1 bar top games are generally low performing, but you
2 can't take them out of the bar and leave a hole, you
3 know. Some might be in the middle of the bank. The
4 bank might be doing well, but that bank --- that one
5 game might not be what it was.

6 So there's about 30 or so of the 189 that
7 won't be at the very, very bottom, but they won't be
8 too far from the very bottom. I think the highest
9 performing one is \$124 or so. And you'll hear Bill
10 talk about it all the time. A third of our floor is
11 always in that dog category, and we're wrestling and
12 we're converting and we're moving, and doing all
13 things we know to bring to this Board to try to
14 increase our performance. Another third is about
15 money, about house average. It's in that zone. We're
16 okay with that. It's not on fire. We don't have to
17 go be crazy.

18 Then we have a third that are some top
19 performers. For the same reason the dogs exist, the
20 stars exist. And you know, each machine would have to
21 be discussed in its individual circumstances to
22 identify that.

23 But one thing's for clear, we're not
24 killing the zone. We're not taking anything out of
25 action. We're swapping some pieces and parts, but

1 we're not killing a zone.

2 You know, another thing that's very
3 clear, we believe this, as Bill touched on, gives us
4 even better service to all levels of the player
5 spectrum. We're going to keep the same employees in
6 slots for sure, servicing less machines. We're
7 probably going to increase some of our dealers, so
8 overall, we believe we're lifting the property as a
9 destination resort entertainment complex. That's why
10 Bill was talking about the multipurpose center and so
11 on.

12 The more people we bring, the better off
13 we are in any other category, food and beverage,
14 slots, everything all combined. And I think one
15 thing's clear. The Commonwealth has observed. With
16 the introduction of table games, slots has improved
17 dramatically.

18 In my honest opinion, Rivers has shown a
19 very direct correlation to companion play that comes
20 with table games and the energy and excitement. So,
21 we shouldn't treat table games as the stepchild here.
22 It is a component. That's all. And as I mentioned,
23 we're going from 51 to 58, but we don't believe we'll
24 hurt our slot business. In fact, we believe we'll
25 increase our slot business.

1 ATTORNEY CREANY:

2 And I realize that a lot of these
3 answers, we're talking about projections. There was a
4 little bit of a track record here, one year as to
5 whether we could expect making the win per unit come
6 up and stabilize or maintaining the same revenues.
7 But where do you see the Meadows going down the road?
8 I see that you're developing a plan of \$25,000,000.
9 But with respect to table games, specifically? We're
10 at 51 and we've added 7. We're at 58. Do you see
11 that growing? Do you see slots needing further
12 reductions? Where will we be in a year?

13 MR. PAULOS:

14 Well, I can't say what kind of business
15 Nemacolin will take from us, and I cannot say what
16 kind of business Ohio will take from us. I don't
17 think either one a lot, to be honest with you, because
18 of the improvements we'll make to our facility. I
19 mean, we're spending half --- half of what Nemacolin
20 was spending on an entire casino for a parking garage
21 and a multipurpose room; okay?

22 So what we're doing is continue to feed
23 people into the slot machines; okay. Those 300 cars
24 aren't for high end table games. They're for slot
25 players, not the high end table group.

1 The increase in table games, okay, are
2 not taking away from the slot players that are playing
3 today; okay? That square footage is not taking ---
4 those machines, that square footage, is not being
5 utilized. So, in fact, okay, as a partner, okay, my
6 suggestion and our suggestion at this is so both of us
7 make more money.

8 ATTORNEY CREANY:

9 That's what you're in business for.

10 MR. PAULOS:

11 Absolutely.

12 ATTORNEY CREANY:

13 With respect to this reduction in cost,
14 you talked about different things. Table games,
15 you're going to have to be more labor intensive with
16 more employees and that. And you're saying now you're
17 not going to reduce any employees on the slot end.

18 MR. PAULOS:

19 Not one.

20 ATTORNEY CREANY:

21 What about the equipment? Is this owned
22 or is this leased equipment that's being removed, the
23 slots?

24 MR. PAULOS:

25 It's owned.

1 ATTORNEY CREANY:

2 And what do you anticipate the
3 disposition of that, those ---?

4 MR. PAULOS:

5 I don't know what.

6 MR. SULLIVAN:

7 Yeah. We'll put it up for sale if indeed
8 we get a ---.

9 MR. PAULOS:

10 We'll obviously store some when we change
11 some old equipment out in our Las Vegas properties.
12 We'll look at that, and then we'll see the disposition
13 of second market --- second marketplace.

14 ATTORNEY CREANY:

15 You know, can the enhancements be done
16 without the reduction of the 189 slots? The overall
17 enhancements you're talking about, the gaming floor,
18 the clubhouse relocation?

19 MR. PAULOS:

20 No.

21 ATTORNEY CREANY:

22 Let's see. With respect to --- at that
23 point, I have no further questions. And we'd like to
24 make just a comment in closing.

25 CHAIRMAN:

1 Thank you, Mr. Creany. I assume you have
2 no further presentation, then, either, Mr. Creany; is
3 that right?

4 ATTORNEY CREANY:

5 No, we have no presentation, and we are
6 still --- our Financial Investigation Unit is still
7 looking at the data that they supplied relative to 189
8 slots that are proposed for reduction if this petition
9 is approved.

10 CHAIRMAN:

11 Okay. With that, I will open it for
12 questions. Commissioner Sojka?

13 MR. SOJKA:

14 Yes, I have a few. Thank you. First of
15 all, I want to thank you for braving the elements to
16 be here today and for bringing us this interesting
17 proposal. I'm going to suggest that it probably was
18 worth your trouble, and I'm also going to suggest that
19 your presence here will be a benefit to us, because
20 we're going to want to learn some things from your
21 experience and your analysis to help us with an
22 ongoing problem. So, I want to thank you for being
23 here, also, as a resource.

24 I think I can read some of my colleagues
25 here and their reactions to some of the things you've

1 shown us. One, we're delighted that you're
2 contemplating additional growth, additional jobs,
3 additional expenditures for the benefit of the
4 citizens of the Commonwealth. That's a plus for us.

5 We also are pleased, or at least I am,
6 that you've clearly addressed the issue of the synergy
7 between racing and gaming and that the horsemen are
8 onboard. And I compliment you for moving in that
9 direction and not having to be --- I can use a horse
10 metaphor --- getting whipped into shape; okay? So, I
11 think that's also very good.

12 I like the marketing concept that you're
13 doing, so all those things, I think, are a plus. But
14 you can tell from the number of questions that Mr.
15 Creany asked, there is this lingering issue. And
16 you've described those of us who might have that issue
17 as skeptics. I would take exception to that to some
18 degree and say that we simply are wearing different
19 hats and serving different masters.

20 The world was relatively easy when
21 Pennsylvania had slot machine gaming only, because we
22 could look at your top line, your bottom line and say
23 it's the same for us. And you do a good job, you run
24 clean games and the better you do, the better we do.

25 And then a double complication came into

1 the picture, the table games and the different taxing
2 rate and then the distribution of the money in a
3 different way, away from property tax and away from
4 the horsemen and away from some of those other things
5 and into the general fund. So, now there are multiple
6 complications deriving from the legislation, and we
7 have the difficult task of trying to stay focused on
8 what is best for the citizens of the Commonwealth
9 overall, and that could cause us to diverge.

10 And we keep coming back to this question
11 of the right number of slot machines. Our colleague,
12 Mr. Ginty, has pointed out that, at virtually every
13 meeting now, some operator is in front of us with this
14 issue, and we are grappling, as Mr. Creany was
15 grappling, with trying to find the appropriate
16 benchmarks and the appropriate data to analyze.

17 We see ourselves moving, I think, into
18 three kinds of areas, the utilization area, the rank
19 among the other operators and then something else
20 today, the fair share. We focused, first of all, I
21 think, on utilization, and I think we've all been
22 frustrated to some degree.

23 I think as regulators we're frustrated,
24 and I think as operators you're sometimes frustrated,
25 because there are these issues about what makes a good

1 and bad machine. Location, certainly, software,
2 certainly. And I think there's one other component,
3 and I've made this direct observation by walking
4 around the floors in our Commonwealth. And that is
5 their denomination.

6 I've seen nights where you have people
7 who --- it's easy to put a utilization saying we're
8 only at 80 percent, and that means there's 20 percent
9 of our machines unoccupied, and that means everybody
10 can play. No, they can't, because a lot of those
11 empty machines are dollar and up machines with
12 multiple lines, and there are people who might want to
13 play them but they know they better not.

14 And they're lined up to get on the nickel
15 machines and quarter machines and 25-cent machines,
16 the three maximum dollar machines and so on, lower
17 denomination machines. So, that begins to affect what
18 we're thinking about utilization. There are just lots
19 of complications with it.

20 Then you get to rank and you've made the
21 point that you're in ninth place. And I think that
22 makes a strong argument that we should certainly
23 consider reduction, but how much and to where? If you
24 get off ninth place, guess what, somebody else will be
25 there, and who will we see next week, them; okay?

1 This is like state saying, gee whiz.
2 We've got a medical school and 50 percent of the
3 students graduate in the lower half of their class.
4 We've got to do something about that. Let's put some
5 money in it. And they do, and guess what? They still
6 have 50 percent of the doctors graduating in the lower
7 half of their class. You can't win that game. And
8 so, looking at the rank from your perspective is
9 meaningful, but from ours is not.

10 But you've added another datum, and that
11 is the fair share. And I think that, from our
12 perspective more than from yours, is something we
13 might want to go to school on. We might start
14 thinking in terms of the total number of slot machines
15 in the Commonwealth of Pennsylvania and are they all
16 in the right places?

17 Would you help me by just answering one
18 simple question? If we got all the slots in the right
19 places, would everybody be tied for first place in
20 fair share?

21 MR. PAULOS:

22 No.

23 MR. SOJKA:

24 Why not?

25 MR. PAULOS:

1 Competition.

2 MR. SOJKA:

3 Oh, you'd be struggling with each other,
4 but if at that magic moment you were all there, we
5 could turn to the citizens and say, we've worked with
6 these people carefully enough that we think we've got
7 the slot machines distributed optimally.

8 MR. PAULOS:

9 I guess it's a larger ---.

10 MR. SOJKA:

11 It's theoretical. I'm sorry.

12 MR. PAULOS:

13 Well, theoretically, absolutely. I mean,
14 we did this in Las Vegas. I mean, we have customer
15 counts, okay, for all of the local casinos; okay? And
16 it has fair shares. It's called the Wells Report,
17 okay? We can send you one so you can see exactly how
18 they do it. And they do it for table games, they do
19 --- and they have the fair share of the market that
20 each facility has; okay? Now, obviously, because
21 we're next door to one another, the competition is
22 quite ---

23 MR. SOJKA:

24 Uh-huh (yes).

25 MR. PAULOS:

1 --- is quite fierce. But when you look
2 at the slot market and the utilization, you need to
3 look at three or four different categories and sit
4 down and say, okay. For instance, you have --- in a
5 same competitive area, you have Rivers and you have
6 Meadows. What happened over the last year and a half
7 and how did things change and how did market shares
8 change?

9 Because we also took --- but you also
10 have to look at West Virginia, because we took a
11 market share from West Virginia; okay? And so how is
12 all that market now? Now, you're entering into the
13 fray.

14 Nemaocolin. Now, Nemaocolin --- we won't
15 get into that discussion, but what Nemaocolin --- no,
16 no, it's great. We absolutely agree with your
17 decision and that's fine, and they're a great resort.
18 So I think it's great.

19 But again, is it going to be by the law,
20 okay, the resort? Or are we going to hand membership
21 cards to all the local folks? Now, all of a sudden,
22 the spirit of the law that I spent a half a billion
23 dollars on has been pierced; okay? And now I have
24 more competitive pressure; okay? Which is okay. But
25 then I have to look --- so, now we're trying to be

1 proactive and say, how can we best service our
2 customer; okay?

3 Now, the interesting thing about
4 utilization now --- and if we look at this particular
5 case, okay, we're saying if we change, maintain the
6 same revenues, we stayed in ninth place; okay, and are
7 still --- we get --- we only move --- we are at \$201
8 win per unit, and the next guy is \$213. And all I'm
9 saying is I want to beat the next guy.

10 MR. SOJKA:

11 Uh-huh (yes).

12 MR. PAULOS:

13 That's his job. That's how he makes
14 money.

15 MR. SOJKA:

16 And he can do that by not necessarily
17 reducing the number of slot machines there. But in
18 that kind of competition, he's tries to make them more
19 attractive ---

20 MR. PAULOS:

21 Right.

22 MR. SOJKA:

23 --- by either location, proper
24 denomination or better software or something.

25 MR. PAULOS:

1 Absolutely.

2 MR. SOJKA:

3 Right; better service or whatever.

4 MR. PAULOS:

5 And that's what we have to do, but ---.

6 MR. SOJKA:

7 And then we'd all win; don't we?

8 MR. PAULOS:

9 Exactly. But there is a point where
10 there is an over-saturation. And when we came ---
11 and this is, you know, our fault, okay, when we built
12 the Meadows, and we said this when we made our
13 presentation, we were building the Meadows with table
14 games in mind. We were building the square footage
15 for the Meadows.

16 Now, we could have, and we had the
17 option, of walling off square footage. But that
18 wouldn't be the best case for our partners. Our
19 partners are more interested in how much revenue can
20 we make? And if we, perhaps, overdid it, like we did,
21 okay, maybe we could make more revenue than we
22 thought.

23 Now, we've certainly made more revenue
24 than the Board thought we would do --- the board
25 thought we would do. And we want to continue to do

1 that. And I ---

2 MR. SOJKA:

3 Uh-huh (yes).

4 MR. PAULOS:

5 --- absolutely understand, okay, your
6 dilemma, okay, in the fact that we now have two
7 different games and we have two different price points
8 as far as taxes, okay, and that table games chews up
9 square footage. Absolutely understand that; okay?
10 And in a facility that did not foresee that and build
11 accordingly, that is a major issue.

12 MR. SOJKA:

13 Again, I want to thank you for being here
14 as a reference. For one, I find what you just said
15 good food for thought, and I can assure you that in
16 the months ahead, we're going to be chewing very hard
17 on this, because our goal is not to be bureaucratic or
18 difficult, and certainly not to cut off our noses to
19 spite our face.

20 But we want to be appropriate level
21 regulators, so, we're going to struggle with this, and
22 we'll watch very carefully. But you've helped me, at
23 least, better understand what the right numbers are.

24 MR. PAULOS:

25 We invite anyone to our corporate

1 offices. Okay. We have an entire floor dedicated,
2 okay, to IT and the analysis of every machine in our
3 company every day. And we're happy to --- for anybody
4 to come and look at those analyses, see what we do,
5 how we compile that information, and determine what we
6 do determine and how and why we move a machine and why
7 we put clusters.

8 And as Sean said before, we know there
9 are two things; okay? You have two budgets. Our
10 customers have two budgets. One's a wallet budget,
11 and the other one's a time budget. Well, we know,
12 through our analysis --- we know factually, through
13 our analysis, okay, that the time budget always runs
14 out before the wallet budget; okay?

15 And I'm not talking --- and I'm talking
16 about someone who has a gaming budget. They're coming
17 with \$30, \$40 to spend. I'm not talking about taking
18 some poor fellow's --- all his money. I'm talking
19 about their budget for their night out; okay? They
20 come to.

21 We know that it does. So, when we
22 develop our utilization scans and when we develop our
23 floor plans, we develop them --- especially in a
24 casino that is this large, we have to consider all
25 that time. We have found in our company that if we

1 have five minutes more play, okay, from all of our
2 patrons, not one more person coming through the door,
3 okay, we generate \$5,000,000 worth of revenue; okay?
4 Now, that's \$5,000,000 worth of revenue for five
5 minutes.

6 We know through our analysis that that
7 player has been in our building for two and a half
8 hours, but they have only played for an hour and a
9 half. So, what have they been doing for the other
10 hour? Well, they've been eating, they've been going
11 to a show, they've been doing this and they've been
12 doing that, and they've been looking for machines;
13 okay?

14 Now, we have the other --- we have the
15 additional problem on our peak periods; okay? We have
16 an additional problem. As you know, we have 157 acres
17 and we have parking all over the place. So, we've got
18 to make the parking more efficient so our customers
19 are more efficient. That's how deeply we get into
20 these numbers. So, we don't come to you with just
21 off-the-top-of-our-head kind of things.

22 CHAIRMAN:

23 Thank you. Commissioner Ginty?

24 MR. GINTY:

25 You may have answered the question, but

1 in pondering the request or particularly for the
2 reduction in slot machines and that --- and we are
3 concerned with the casino, excuse the term, gaming
4 system to take advantage of the lower tax on table
5 games. I'm always wondering whether that is a
6 legitimate concern that we have, and should we have
7 that concern?

8 MR. PAULOS:

9 Well, I know in western Pennsylvania ---
10 I can't speak to any other part. I know that in
11 western Pennsylvania, table games have been an
12 additive function for the slot area. I mean, all we
13 have --- I mean, all we have to do is look at Rivers.
14 I mean, Rivers was a struggling casino, okay, when it
15 just had slot machines. When they received table
16 games, everything changed.

17 MR. GINTY:

18 I understand that. But that doesn't
19 answer my question.

20 MR. PAULOS:

21 I know.

22 MR. GINTY:

23 You know, ---.

24 MR. PAULOS:

25 You have to be concerned.

1 MR. GINTY:

2 Right.

3 MR. PAULOS:

4 You have to be concerned.

5 MR. GINTY:

6 Well, maybe.

7 MR. PAULOS:

8 It would be unfair for me to say not.

9 MR. GINTY:

10 Well, you know, let me try something out.

11 You know, if I were you I would be throwing a match

12 and running forward ---

13 MR. PAULOS:

14 Right.

15 MR. GINTY:

16 --- to your slot and your table games.

17 MR. SULLIVAN:

18 They mean the same to us. One has more

19 labor, one had more taxes, but at the day --- end of

20 the day, they're very similar in that regard for

21 profitability.

22 MR. GINTY:

23 The other thing is I understand you have

24 two very different classes of customers that --- you

25 know, the people don't --- guys that play, guys that

1 also play table games, don't spend a lot of time. You
2 raised something that does give me pause, though, if
3 you were space constrained. Then I think that may be
4 more of a ---.

5 MR. PAULOS:

6 There's no questions that's an issue. I
7 mean, it just is.

8 MR. GINTY:

9 Now, when you were doing this
10 restructuring or before, you know, in a prior life
11 whenever we changed anything, you know, studied to
12 death and more scenarios. And I assume that you had
13 done that, as well, that, you know, you've looked at
14 what your revenues were going to be in slots and
15 increased your --- you'd looked at whether to reduce
16 slots or table game venues. And I assume you've done
17 that?

18 MR. PAULOS:

19 Oh, absolutely.

20 MR. GINTY:

21 Can you share that with us in any way so
22 that we can get a better understanding of what your
23 dynamics are and ---?

24 MR. PAULOS:

25 Well, our dynamics, as it lays out, okay,

1 is we consider the reconfigurations of before, okay,
2 where we stayed exactly the same in our revenue base,
3 okay, because we have no desire to go backwards;
4 okay?

5 Now, when we talk about adding the
6 parking garage, now we talk about driving even more
7 customers during those peak periods to fill those
8 machines. They're machine people. That's where this
9 all goes. We're driving more people.

10 We have --- we're constrained --- it's
11 interesting. We got way too many slot machines at the
12 time frame and too few accessible parking spaces.

13 I mean, if you want to walk a half mile,
14 but I mean, we have shuttles and do all the right
15 things, but on a Saturday night at seven o'clock, you
16 may be driving 15 minutes looking for a parking space.
17 Very aggravating; okay? So, we get that in place,
18 we're driving more folks into that casino. And
19 they're slot folks.

20 MR. GINTY:

21 I have no problem if you have 50, 60 to
22 70 vehicles. I mean, that's probably a mistake you
23 made some months ago that you should've corrected
24 sooner. But is there anything in particular that we
25 should be looking at in the relationship and in the

1 dynamic so that we can be assured that casinos that
2 --- that other casinos wouldn't be in gaming places?
3 Is there anything to look for?

4 MR. PAULOS:

5 You continue to look at the utilization
6 --- the utilization of table games, also. Okay. The
7 win per --- you know, the win per table.

8 MR. GINTY:

9 Uh-huh (yes).

10 MR. PAULOS:

11 And I believe most the facilities now
12 have high limit rooms. The reason we needed a high
13 limit room is our high limit room is in our high limit
14 slot area; okay? And we're combining the two, and
15 it's not being pleasantly accepted by our high end
16 slot players. So, they want it to move. So, we're
17 actually answering the request of our high end slot
18 players who dominate our revenue.

19 MR. GINTY:

20 And I'll end just with a comment. I
21 mean, we've had a lot of these instances before, and
22 this was clearly a thorough presentation that we've
23 had. And it's at least helping me understand the
24 dynamics that are going on and making me feel more
25 comfortable in my decisions. Thank you.

1 MR. PAULOS:

2 Well, thank you very much. We appreciate
3 that.

4 CHAIRMAN:

5 Commissioner Moscato?

6 MR. MOSCATO:

7 Thank you, Mr. Chairman. Just one quick
8 comment, and one quick question. As my fellow
9 Commissioner said, I do appreciate the information
10 that you've given me. Being the freshest of the fresh
11 on this Board, I really do appreciate it. My question
12 is, do you anticipate having done all of your analysis
13 and all your studies, coming back to us in the future
14 time and asking for a further reduction?

15 MR. PAULOS:

16 Now, we don't.

17 MR. MOSCATO:

18 Thank you very much. Thank you, Mr.
19 Chairman.

20 CHAIRMAN:

21 Commissioner Trujillo?

22 MR. TRUJILLO:

23 I think briefly --- I also thank you for
24 coming, making the efforts. I think it's really very
25 meaningful to us, and we appreciate that, your candor

1 and presentation. A follow-up on Commissioner Ginty's
2 couple of questions.

3 And first, for the record, my view of the
4 universe is you clearly are in this business to make
5 money. And by and large our interests are
6 coterminous, but because of this difference in the tax
7 rate and because our take is off the top, not off the
8 bottom, it does create the potential for a conflict of
9 interest.

10 MR. PAULOS:

11 You want to change?

12 MR. TRUJILLO:

13 Every two weeks, the answer is yes. What
14 I would like to see --- and as we have this
15 discussion, because I know this discussion won't
16 change and because there's no one thing that drives
17 that top line number --- I think it's a lot of
18 different things --- and because I am --- I can be ---
19 this would surprise Mr. Ginty, but my view of it is
20 you're much better at doing your business every day
21 than we are.

22 We're better at maybe second guessing you
23 in the second guessing department, but you're good at
24 what you do, so --- but what would help us is we have
25 --- and I've said this before, we have a providential

1 arm and we have an enforcement arm. We have a couple
2 of roles. And what would help me understand ---
3 because I think there is both short term and long term
4 impacts on the tax revenue side.

5 And so I can see the strategic benefit of
6 your investing the kind of money you're investing.
7 And it's not necessarily going to accrue to our or
8 your bottom line in the short run, perhaps, but a year
9 or two or three down the road, I can see it where you
10 may need 4,000 slot machines or where your high limit
11 posed slots and table play may be something that works
12 very well for all of us.

13 Along those lines, and I assume given the
14 kind of metrics that you look at, that one of the
15 components of those metrics that you look at is what
16 is the tax implication? And so while we have nice
17 numbers on GTR and utilization and the like, and your
18 ninth place, first and second place --- those are all
19 good --- what we don't have, and what I would like to
20 see, is as you implement this plan both short term and
21 long term, I would just like to slice those numbers a
22 little deeper and see what is the state tax revenue
23 impact of the mix change?

24 I don't know that it changes, you know,
25 whether we agree. It may help, but I think it's

1 useful to look at in the, you know, first quarter, you
2 know, four quarters out, two, three years out, because
3 I think there's going to be some up and down and ---
4 but at least for me, you're doing an analysis that I
5 think --- I assume you're doing that kind of analysis,
6 and even with my much smaller budget, I do that tax
7 analysis, too. So, if we could see your tax analysis
8 broken down that way, that would be very helpful, I
9 think, to us in understanding it.

10 MR. PAULOS:

11 And we actually do a profitability
12 analysis.

13 MR. TRUJILLO:

14 Sure.

15 MR. PAULOS:

16 So the tax just happens to be an expense
17 within that profitability analysis.

18 MR. TRUJILLO:

19 But for us that expense is not an expense
20 for us. And so that's what --- we want to see that,
21 what that expense item of yours is.

22 MR. SULLIVAN:

23 That could be done.

24 MR. TRUJILLO:

25 Thank you.

1 MR. PAULOS:

2 Sure.

3 CHAIRMAN:

4 Thank you. Commissioner Ginty?

5 MR. GINTY:

6 Commissioner Trujillo, if you do that
7 type of analysis, then we might be able to determine
8 whether you are --- once you do your profit analysis.

9 MR. PAULOS:

10 Whether we're working the system?

11 MR. GINTY:

12 Whether you're working the system or not.

13 MR. PAULOS:

14 Uh-huh (yes).

15 MR. GINTY:

16 And that's something that our folks, our
17 financial folks, should be aware of. And I think that
18 will be --- particularly over time, would give us a
19 feeling of comfort.

20 MR. PAULOS:

21 And the reason, again, you know, our
22 reason of comfort to do that with you, I mean, we have
23 no issue, because we're going to put that parking
24 garage up. I mean, that's not an --- the parking
25 garage is not an if. The parking not --- garage is

1 not a dangle here.

2 The parking garage is getting built. The
3 plans are ready. We've been approved for temporary
4 parking on the land. We haven't --- you, obviously,
5 all that stuff, but that's going to be done. So,
6 we're driving people. So, we have absolutely no
7 problem in --- because quite frankly, we have to put
8 in our --- I'm going on a road show next week and it's
9 in our presentation that we're going to make an
10 additional \$3 million to \$5 million just from the
11 parking garage in slot revenue, not table game
12 revenue. Slot revenue.

13 MR. GINTY:

14 Thank you.

15 MR. PAULOS:

16 Thank you.

17 CHAIRMAN:

18 Sure. Any other questions? Ms. Jones, I
19 assume you'll want the PowerPoint put into the record?

20 ATTORNEY JONES:

21 Yes, Your Honor.

22 CHAIRMAN:

23 Okay. We will do that. Mr. Creany,
24 final comment?

25 ATTORNEY CREANY:

1 Mr. Chairman, thank you. This has been a
2 really interesting petition, and we've worked hard
3 with the WTA. They've been very cooperative, sharing
4 information, and we're still digesting that
5 information, but I think a couple things said by the
6 Board are important.

7 It wasn't disingenuous for them to come
8 in with a petition when they're putting it all on the
9 table. They could have come in and said, we want to
10 reduce slots, come in five months later and said, we
11 want to put in tables, but they put it all out, and it
12 lays out in an area that, as Commissioner Trujillo
13 said, their candor today is appreciated by everybody.
14 And we appreciated that they have been providing
15 information.

16 We ask for the hearing to get some
17 guidance from the Board of what it is that's
18 appropriate, because we've seen not just the
19 questioning that OEC has, but with the Board, we're
20 struggling with what is the appropriate criteria when
21 somebody comes in for reduction? And it's not BIE,
22 it's not financial section's point to supplant a
23 business decision that WTA's making for their
24 operations.

25 We just want to get some guidance

1 relative to the impact that we have from the table
2 games legislation in 13A-15, Subsection 7. When they
3 were approved, they certified that they weren't going
4 to reduce slots for purposes of table games. They
5 were approved for that.

6 They went forward. They installed table
7 games. To be honest, I think they were at least last
8 April talking about 60 table games when we had
9 discussions. Even below that, with respect to that,
10 now we come in with this mixed petition where they're
11 going to reduce and increase.

12 And we're looking for whatever guidance
13 the Board can give OEC in its analysis as to the, you
14 know, culpability of that section about reduction
15 after the levels of October 1, 2009, after a table
16 games approval. It really is for purposes of approval
17 of a petition that has this lingering effect of what's
18 the intent of legislature where they want us to sort
19 of freeze that. And then that's why we're here.

20 You see in our answer we lay out some
21 conditions that we would like if the Board approves
22 it. And one of them was just that, consistent with
23 whatever guidance the Board gives us, that OEC,
24 through BIE's financial section, can have a review of
25 the data that's provided and determine whether the

1 data is appropriate, as the Board has indicated today
2 is the appropriate factors. So, we would like at
3 least a little more time.

4 At this point, we have received, I
5 believe, clear information about the 189. We are
6 going to be looking at the reduction. And the
7 financial office analyst, the forensic expert doing
8 that is not here today, but I believe that we're
9 already on the way to production and what we need.

10 And I can't say that --- you know, I
11 can't say that it's everything she needs, but I think
12 we're getting close to the point where they can do
13 their analysis. So, it would not hold things up in
14 that regards if that's what the Board decides and it's
15 approved pending us verifying some information.

16 CHAIRMAN:

17 Thank you.

18 ATTORNEY CREANY:

19 Yes, sir.

20 CHAIRMAN:

21 Okay.

22 MR. TRUJILLO:

23 One thing --- and again, this is simply
24 me, and others may differ. But in our last hearing,
25 one of the things I talked about was what's the

1 economic substance of the transaction? My view of it
2 is it's the same thing happens here, which is I can
3 maybe talk about a true reduction of slots at --- or
4 anything like that at one moment in time, like you do
5 as an auditor, look back at one period of time.
6 You're looking at it in an abstract.

7 I think if you --- I think a proposal to
8 reduce slots to --- and grow table games as part of a
9 plan that is much bigger than the simple moment in
10 time, to me --- and again, looking at the substance of
11 the entire plan, I would think, is a business matter.
12 You make a decision. Okay. Today we're going to drop
13 100 slots, or tomorrow. It's part of the plan.

14 So at least from my perspective, I look
15 at the economic and the substance of what it's ---
16 it's one piece of the whole puzzle, and if that piece
17 of the puzzle long term has the --- and it's not a
18 guarantee, but at least a realistic potential for both
19 the operator and for the Commonwealth to grow
20 revenues, top line and bottom line, then I think
21 that's what we have to judge by, not necessarily by
22 that --- by the moment in time.

23 And I can't imagine the legislature
24 wanted us to look at a --- you know, just one
25 particular moment in time. Thank you, Mr. Chairman.

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CHAIRMAN:

Thank you. That concludes the matter.
Thank you very much. Now, begin our Executive Session
to further consider the petitions for Valley Forge and
the Washington Trotting Association. We'll return
here at 1:15.

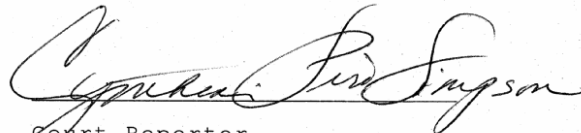
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HEARING CONCLUDED AT 12:35 P.M.

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CERTIFICATE

I hereby certify that the foregoing
proceedings, hearing held before Chairman Fajt, was
reported by me on 04/28/2011 and that I Cynthia Piro
Simpson read this transcript and that I attest that
this transcript is a true and accurate record of the
proceeding.


Court Reporter